

2014 U.S. Investment Outlook

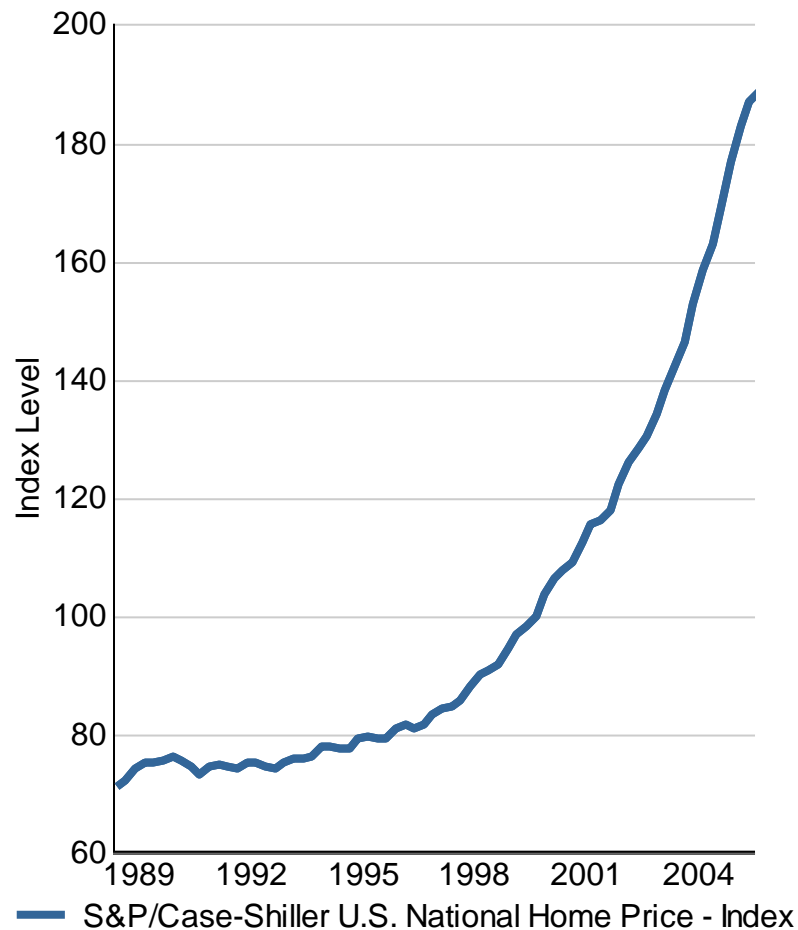
The Great Normalization



**Not FDIC insured. May lose value. No bank guarantee.
Not NCUA or NCUSIF insured. May lose value. No credit union guarantee.**

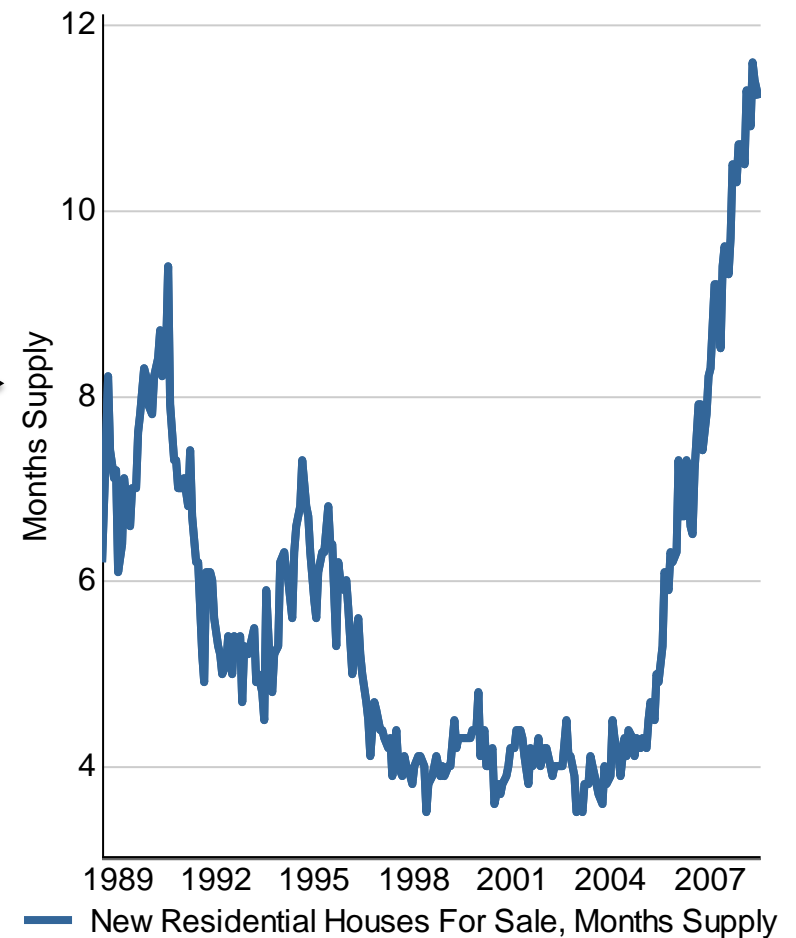
A steep rise in housing prices from the 1990s to the mid-2000s created a construction boom, which eventually lead to excess supply.

Home Prices:



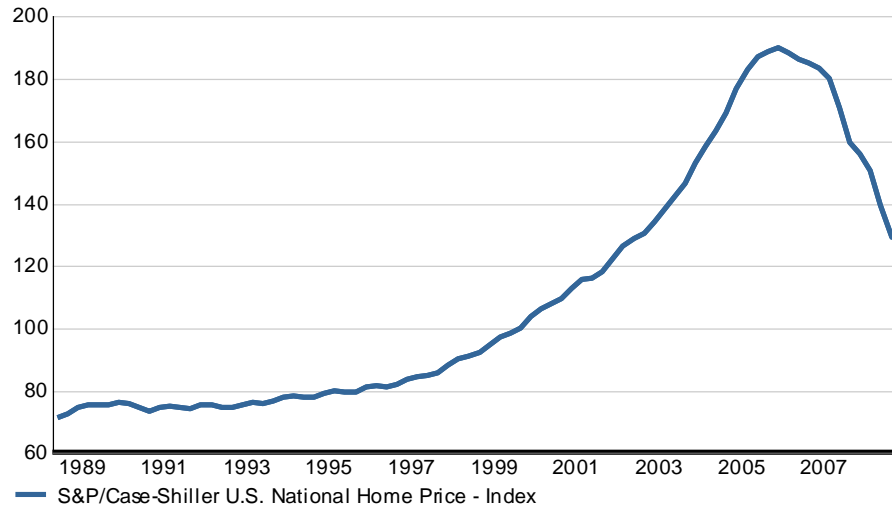
Source: FactSet

Home Supply:



When housing prices fell, this caused a variety of economic imbalances.

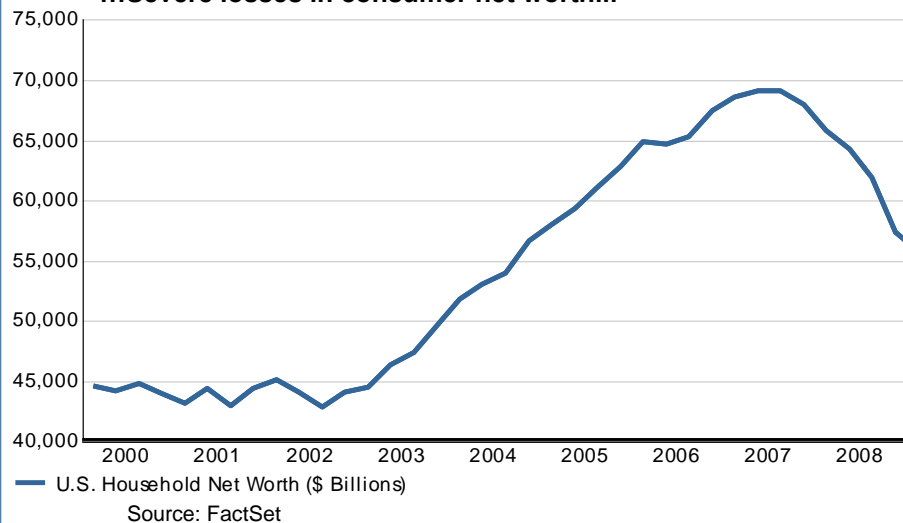
Home prices:



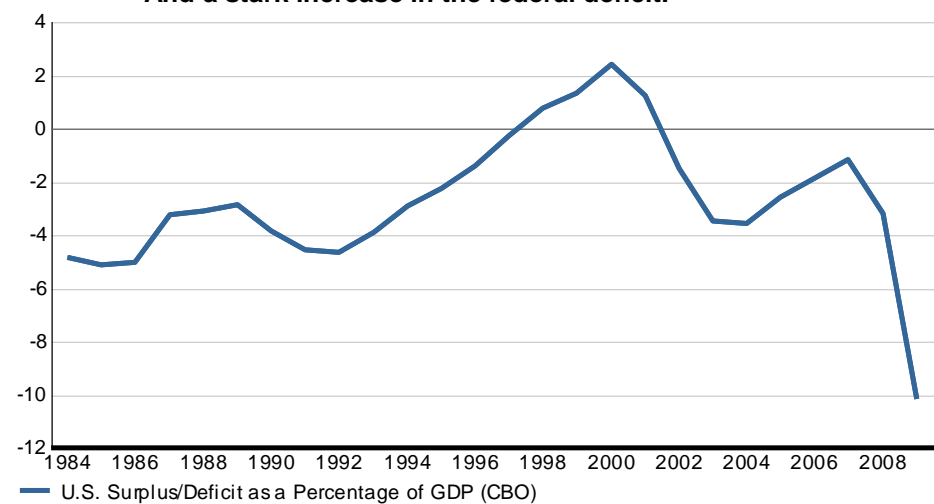
A spike in the unemployment rate...



...Severe losses in consumer net worth...

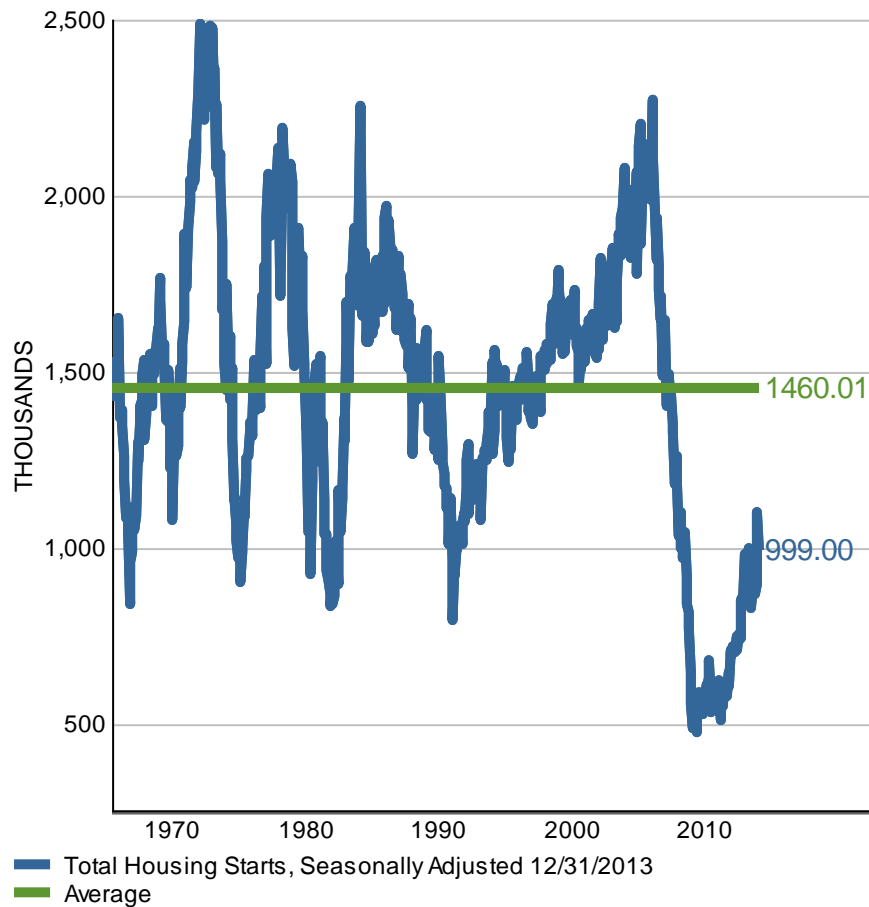


And a stark increase in the federal deficit.



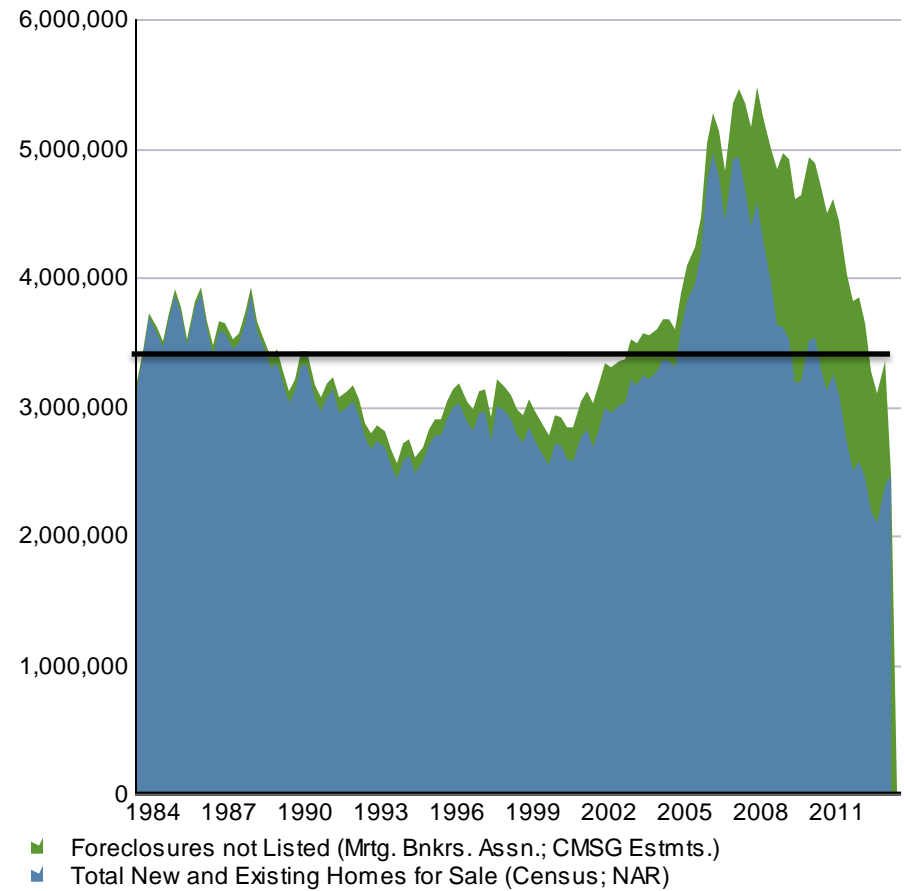
Since 2008 though, the excess in housing appears to have been worked off...

Housing Starts:



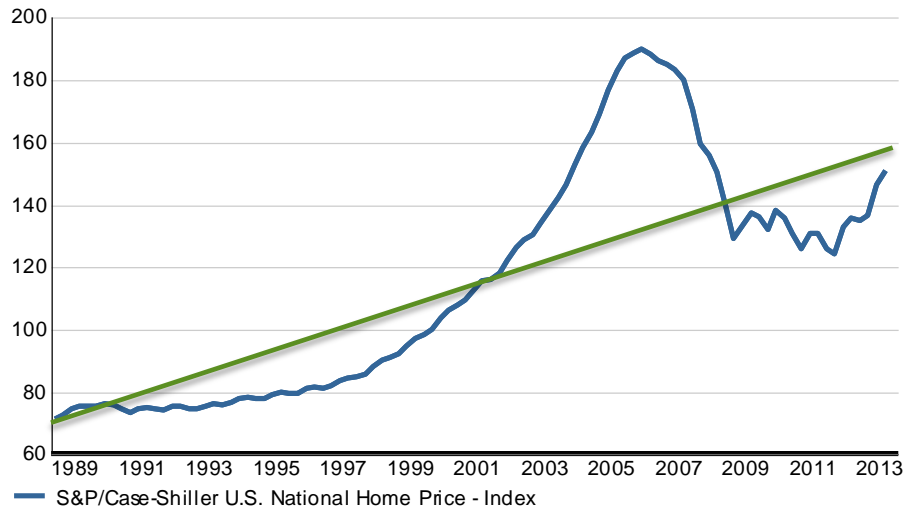
Source: FactSet

Homes Listed for Sale:

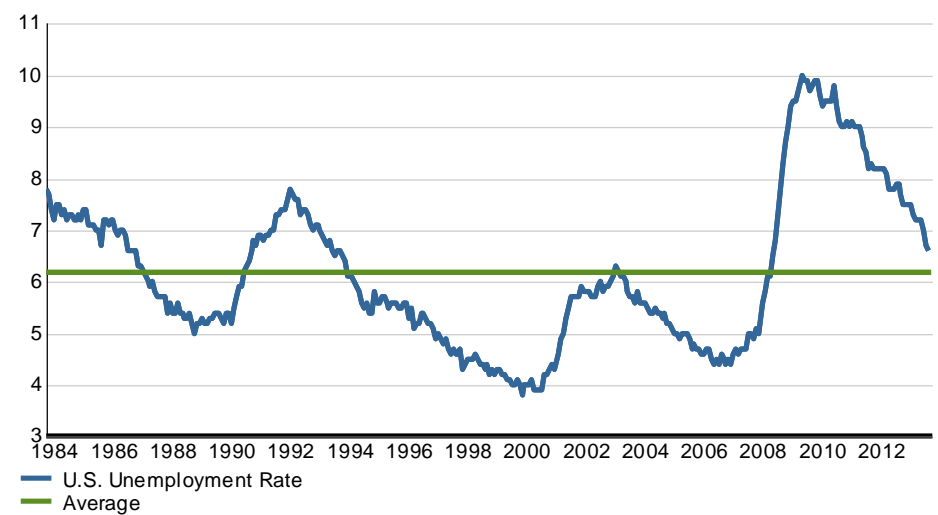


...And as a result, other areas of the economy are also starting to revert back to normal.

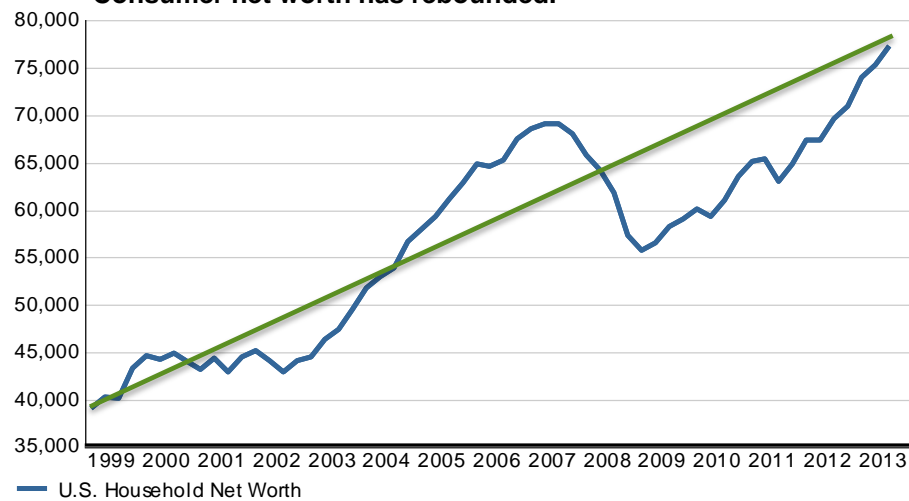
Home prices have stabilized.



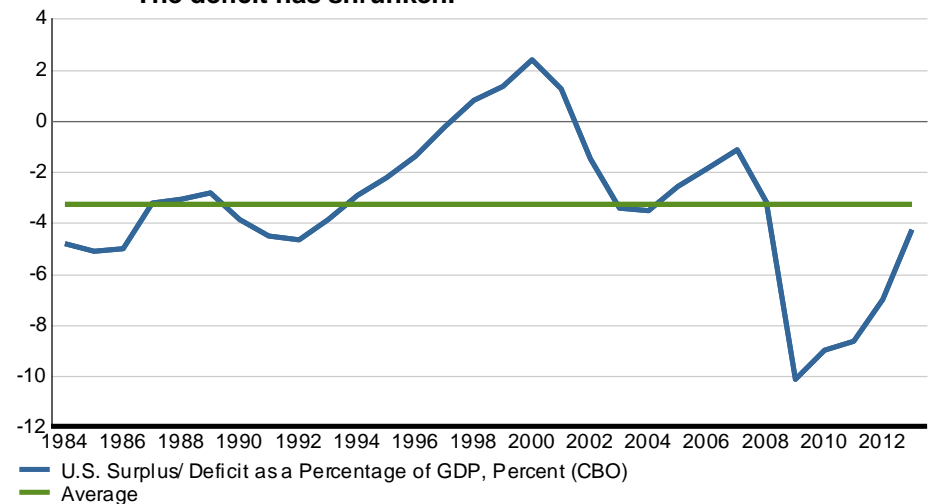
The unemployment rate has fallen.



Consumer net worth has rebounded.



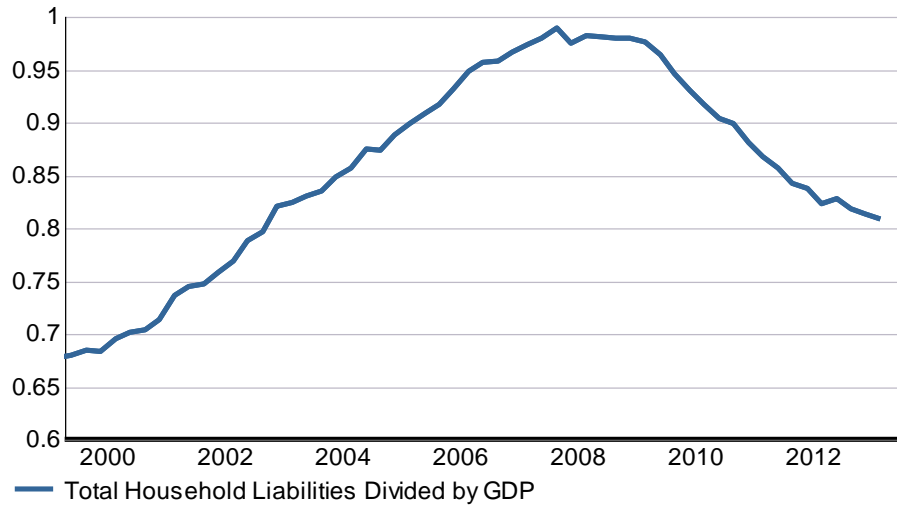
The deficit has shrunk.



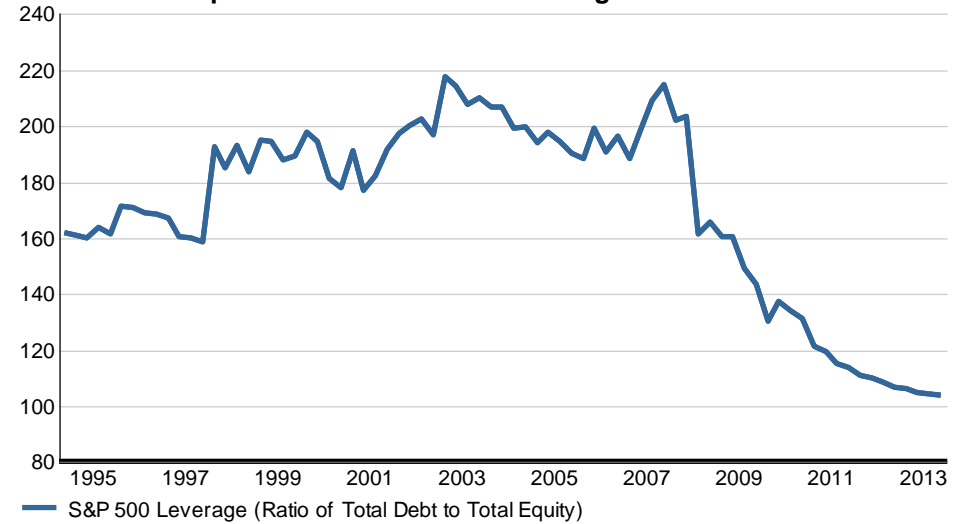
Source: FactSet. Diagonal lines on left-hand charts represent trendlines based on historical performance. Horizontal lines on right-hand charts represent average level of time period shown.

In addition, balance sheets have also been improving...

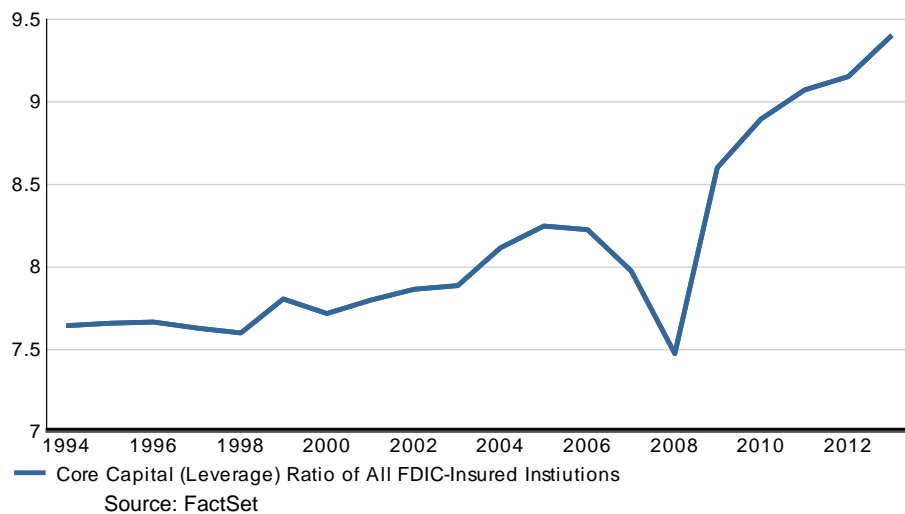
Household debt levels have fallen.



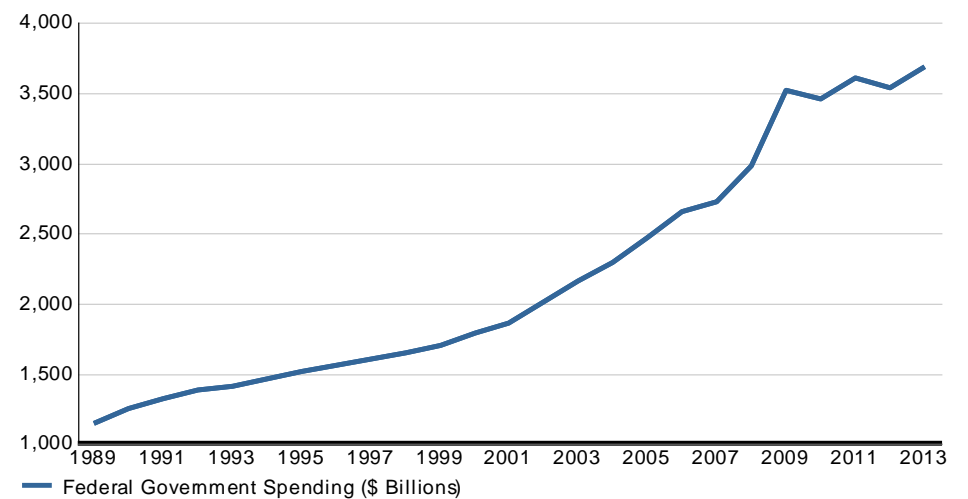
Corporations have reduced leverage.



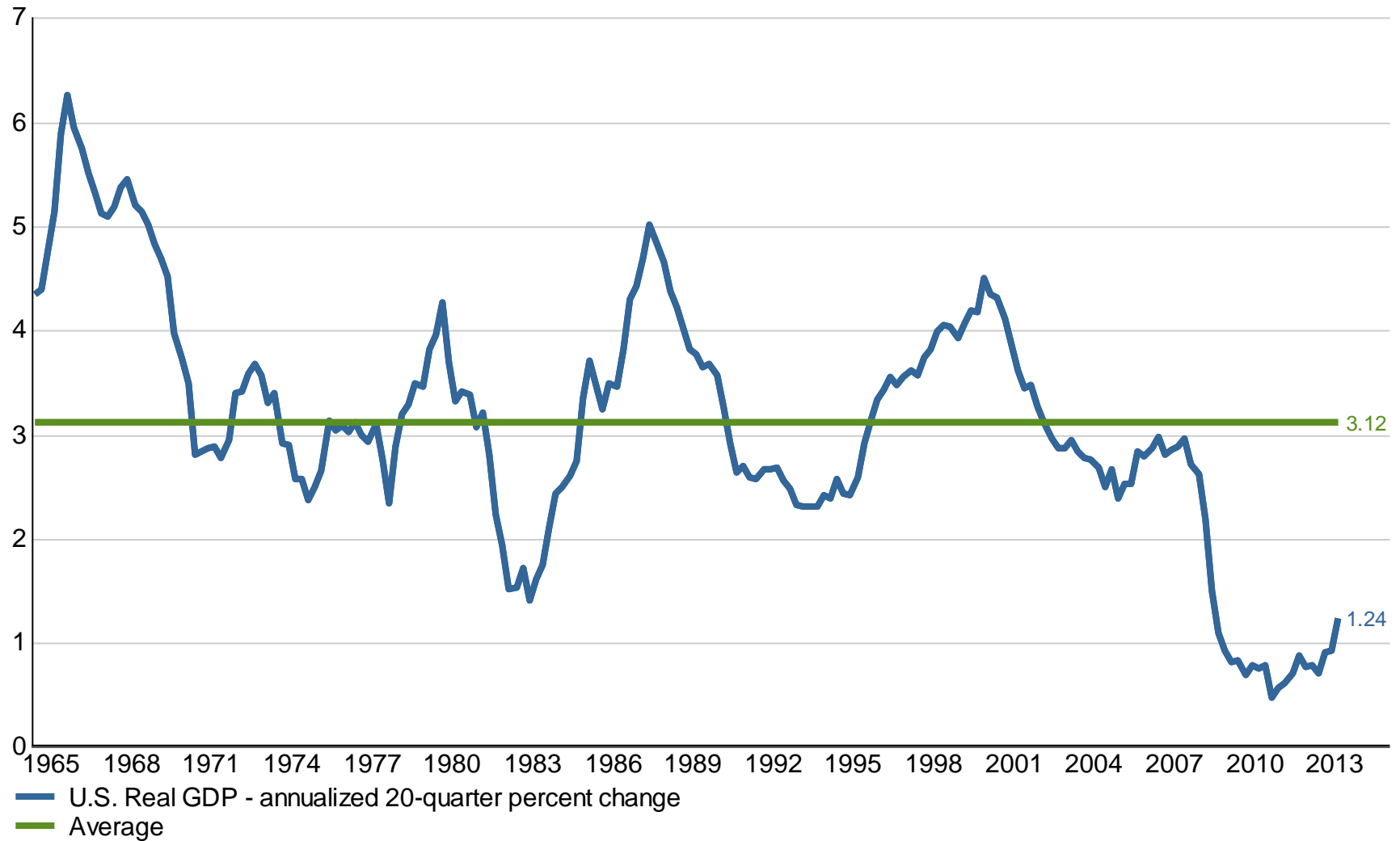
Banks have increased reserves.



Government spending has stabilized.



Nevertheless, economic growth continues to remain subpar.



Source: FactSet

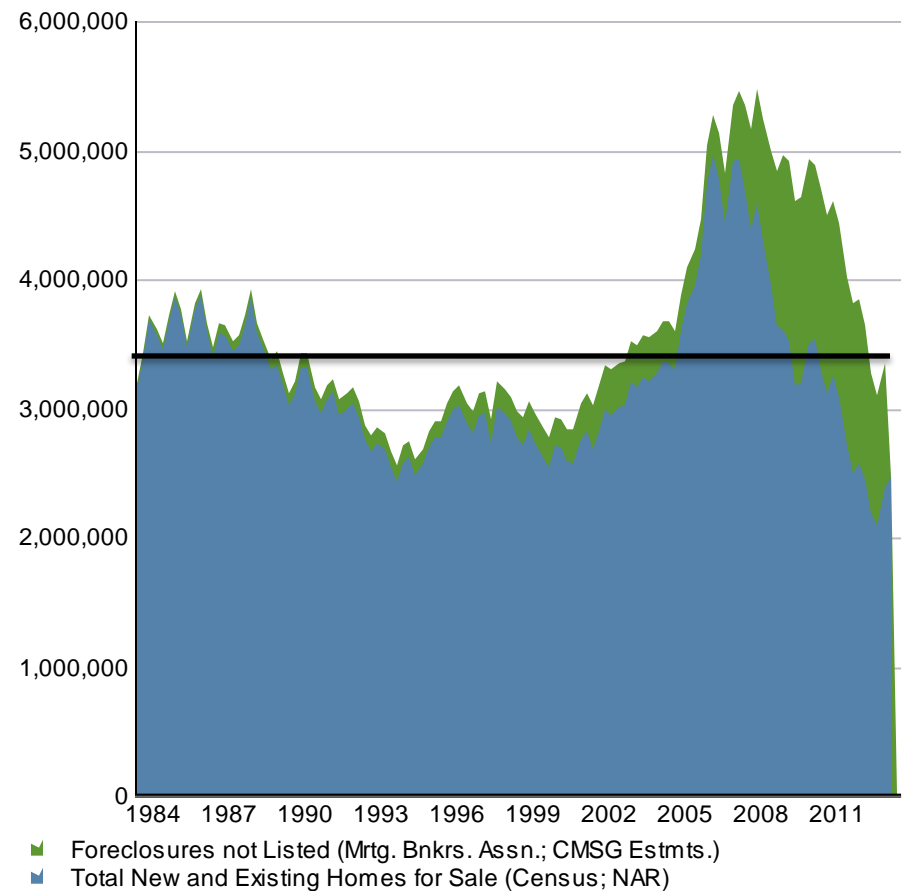
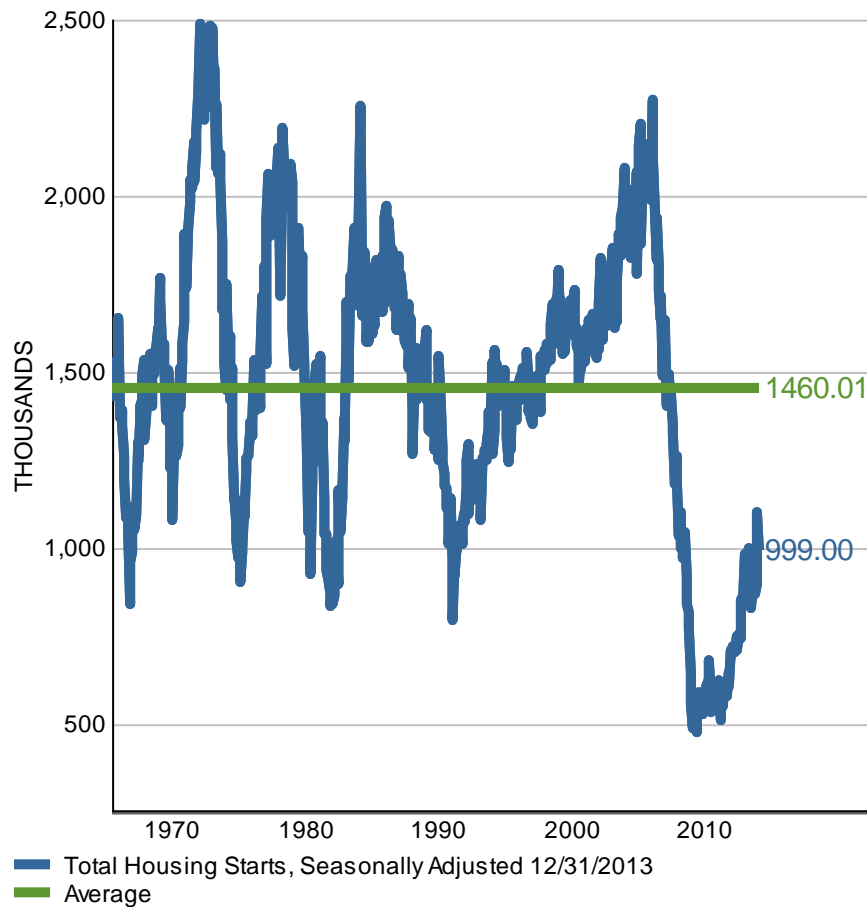
This could be changing soon due to several factors:

The combined forces of **capitalism and innovation**:

- Continued Housing Recovery
- Domestic Energy Boom
- U.S. Manufacturing Renaissance
- 3D Printing

Driver #1 – U.S. Housing: Number of homes for sale, including “shadow” supply, now in line with historical average, leading to a rebound in activity.

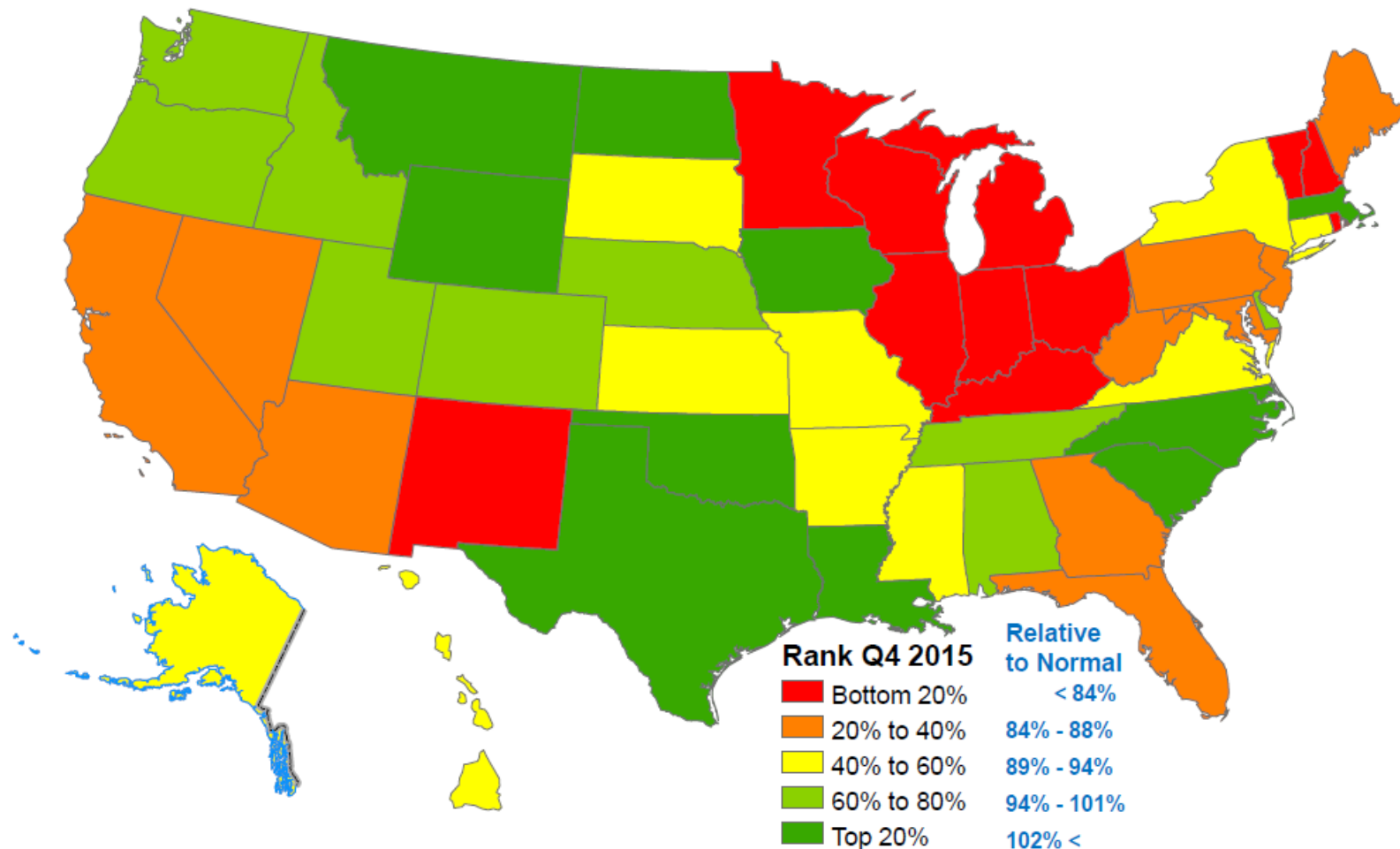
When housing starts revert to normal activity, it could convert to approximately 3 million new jobs in construction and related industries.



Source: FactSet

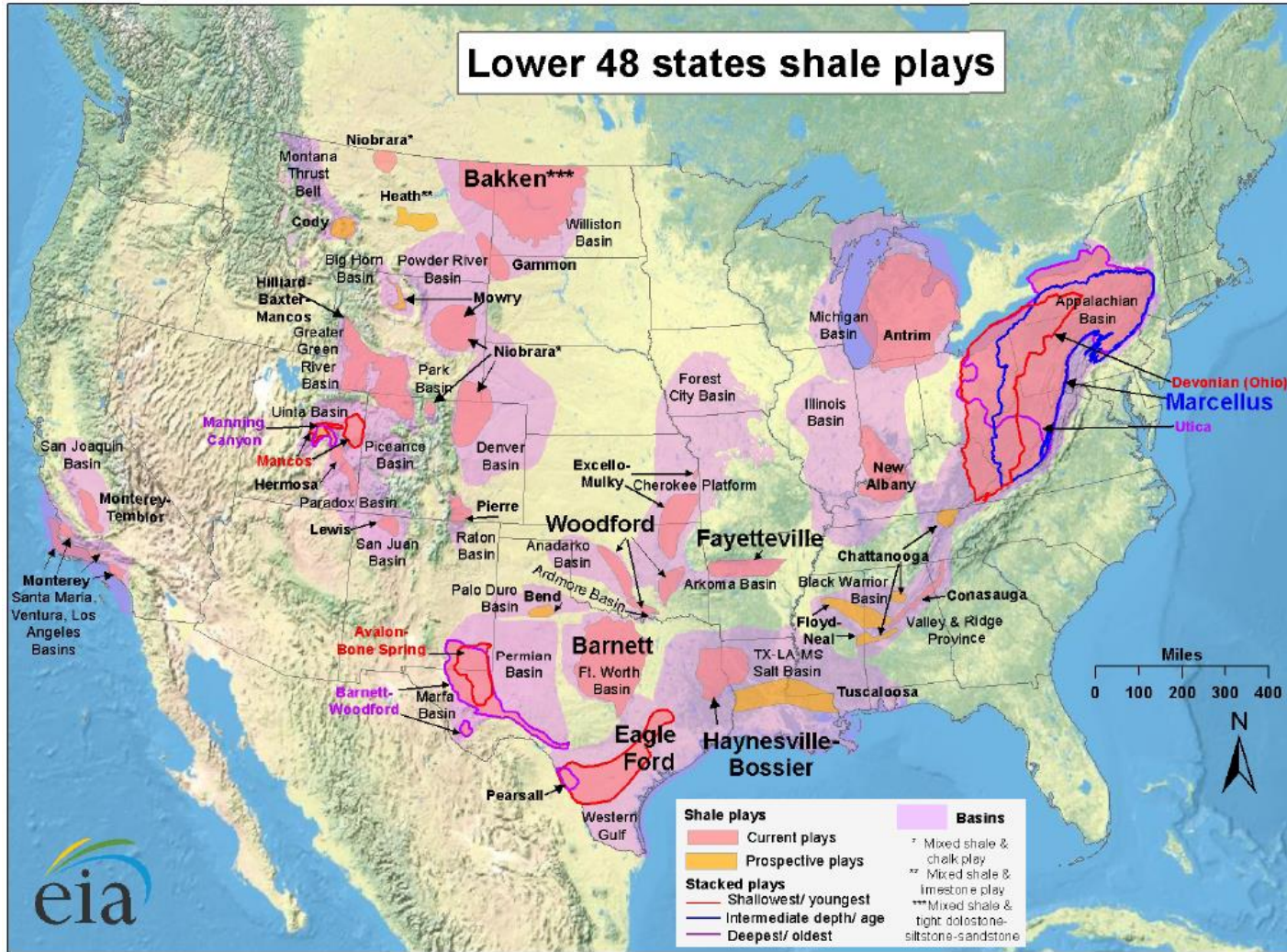
Driver #1 – U.S. Housing: Housing activity remains well below normal levels.

The Long Road Back to Normal – Housing Starts Relative to Long-Term Averages by State:



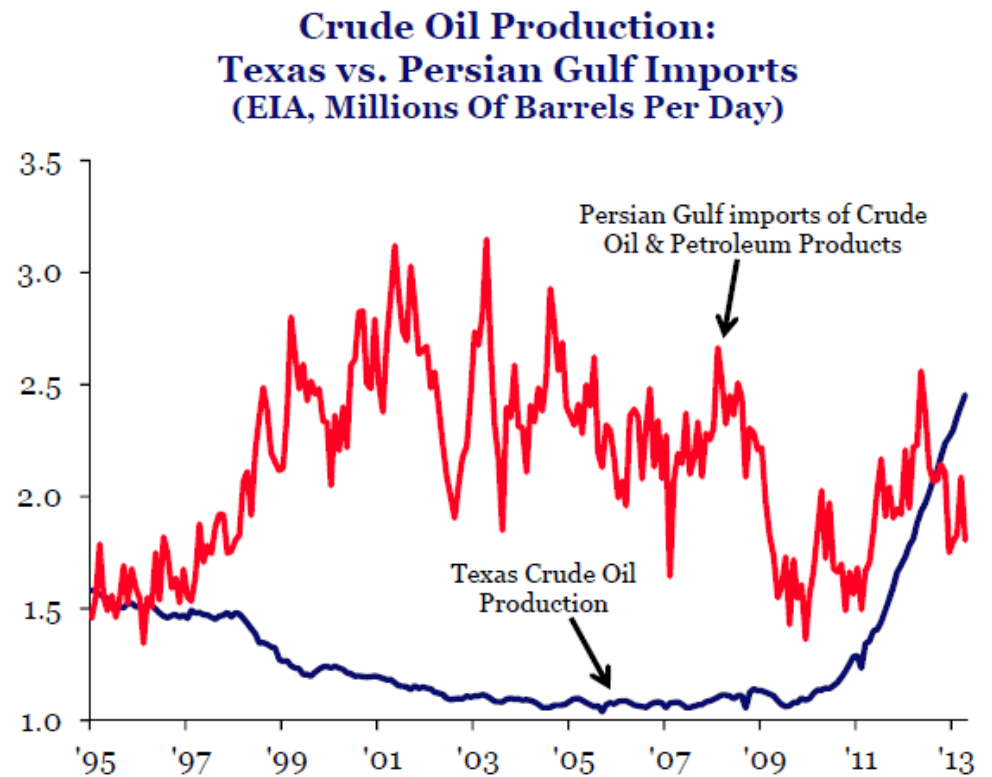
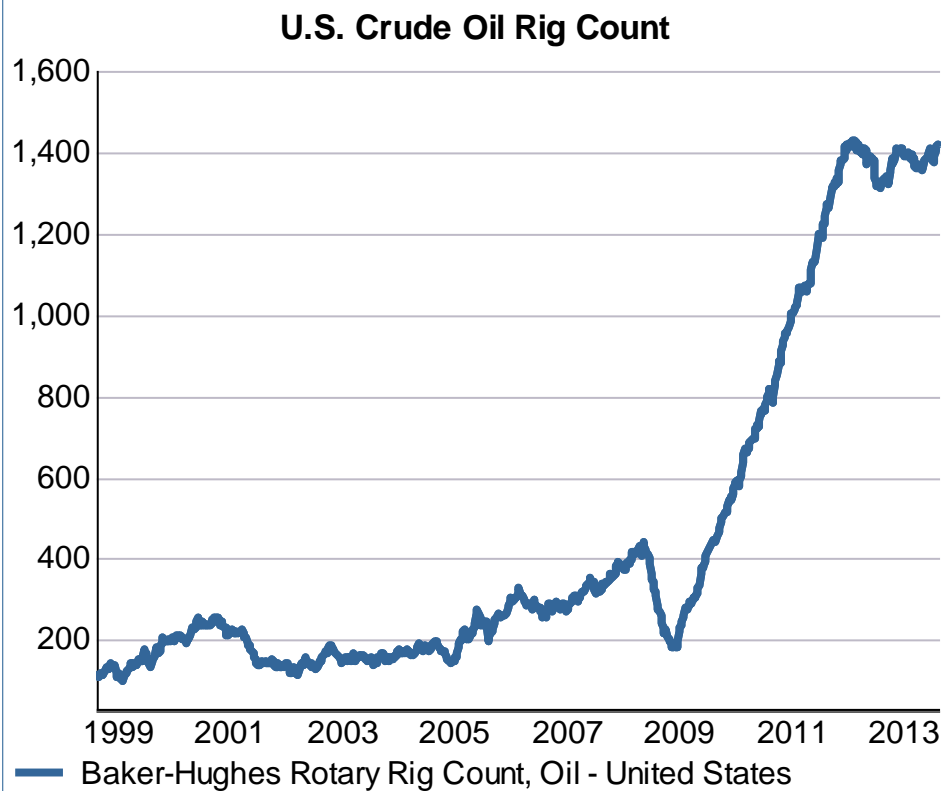
Source: U.S. Census Bureau, National Association of Home Builders. "Normal" is defined as the average level between 2000 and 2003.

Driver #2 – Domestic Energy: Improved technology enabling U.S. to tap abundant oil and gas resources across the nation.



Source: EIA, Citigroup Research

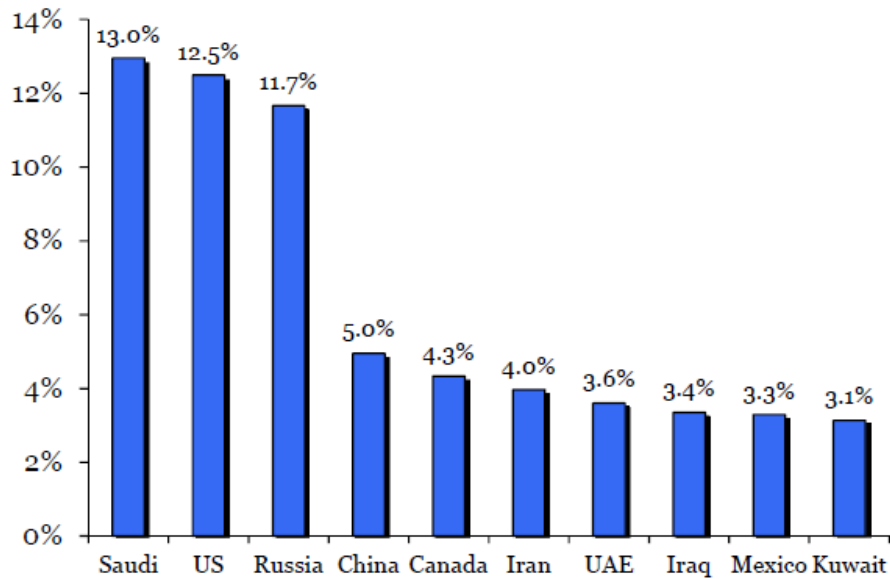
Driver #2 – Domestic Energy: U.S. crude oil production rapidly accelerating.



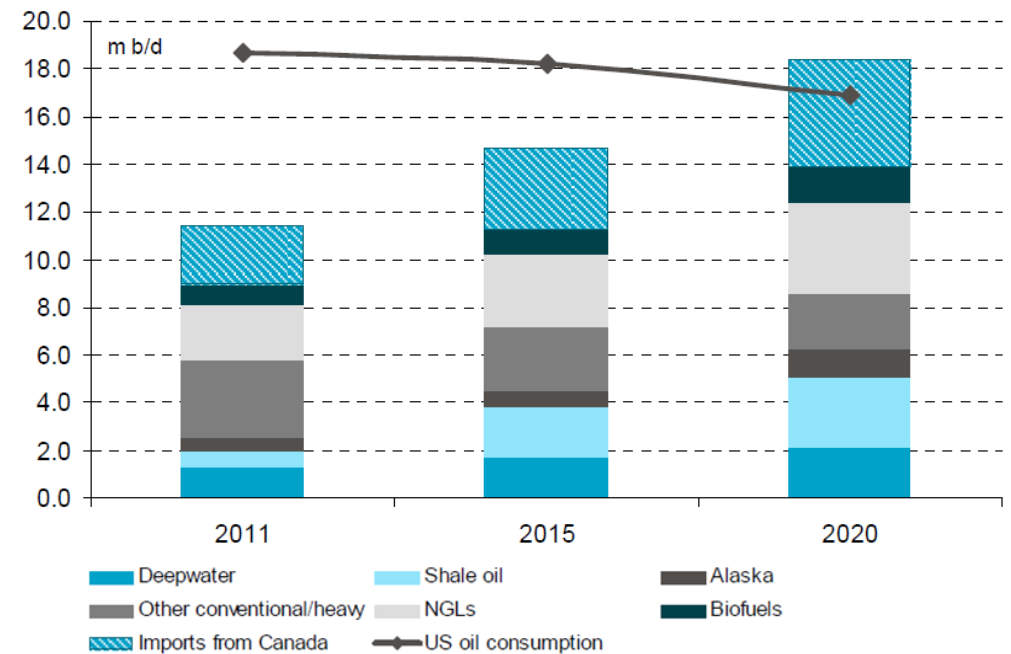
Source: Baker-Hughes, FactSet (left); Strategas, U.S. Energy Information Administration (right).

Driver #2 – Domestic Energy: North America appears to be rapidly approaching energy independence.

Country Crude Oil Production as a Percentage of Global Production (2012):



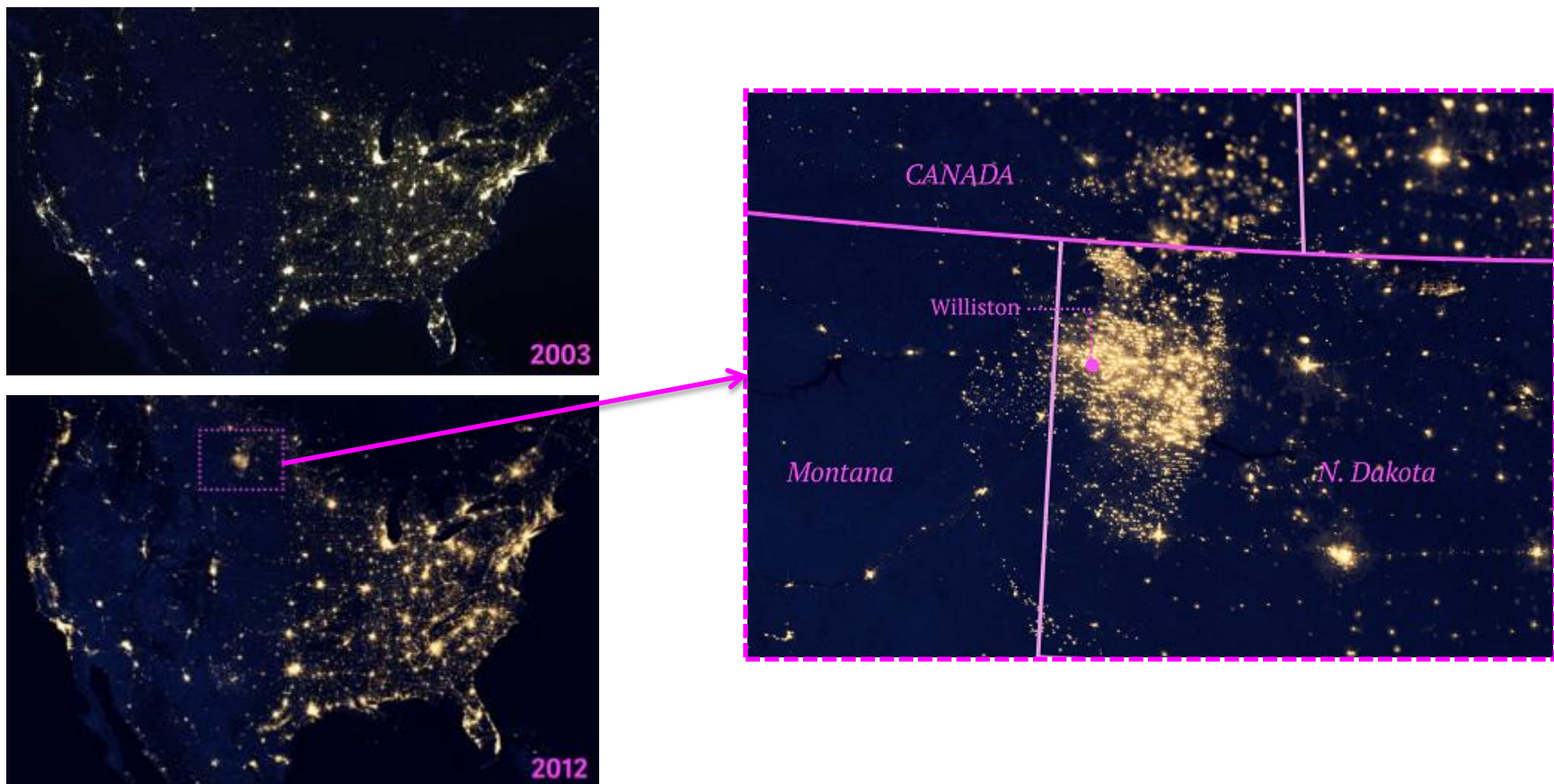
North American Crude Oil Production vs. U.S. Consumption:



Source: Strategas, International Energy Agency (left); Citi Research (right).

Driver #2 – Domestic Energy: Satellite images of gas flares in North Dakota illustrate the scale of the oil boom.

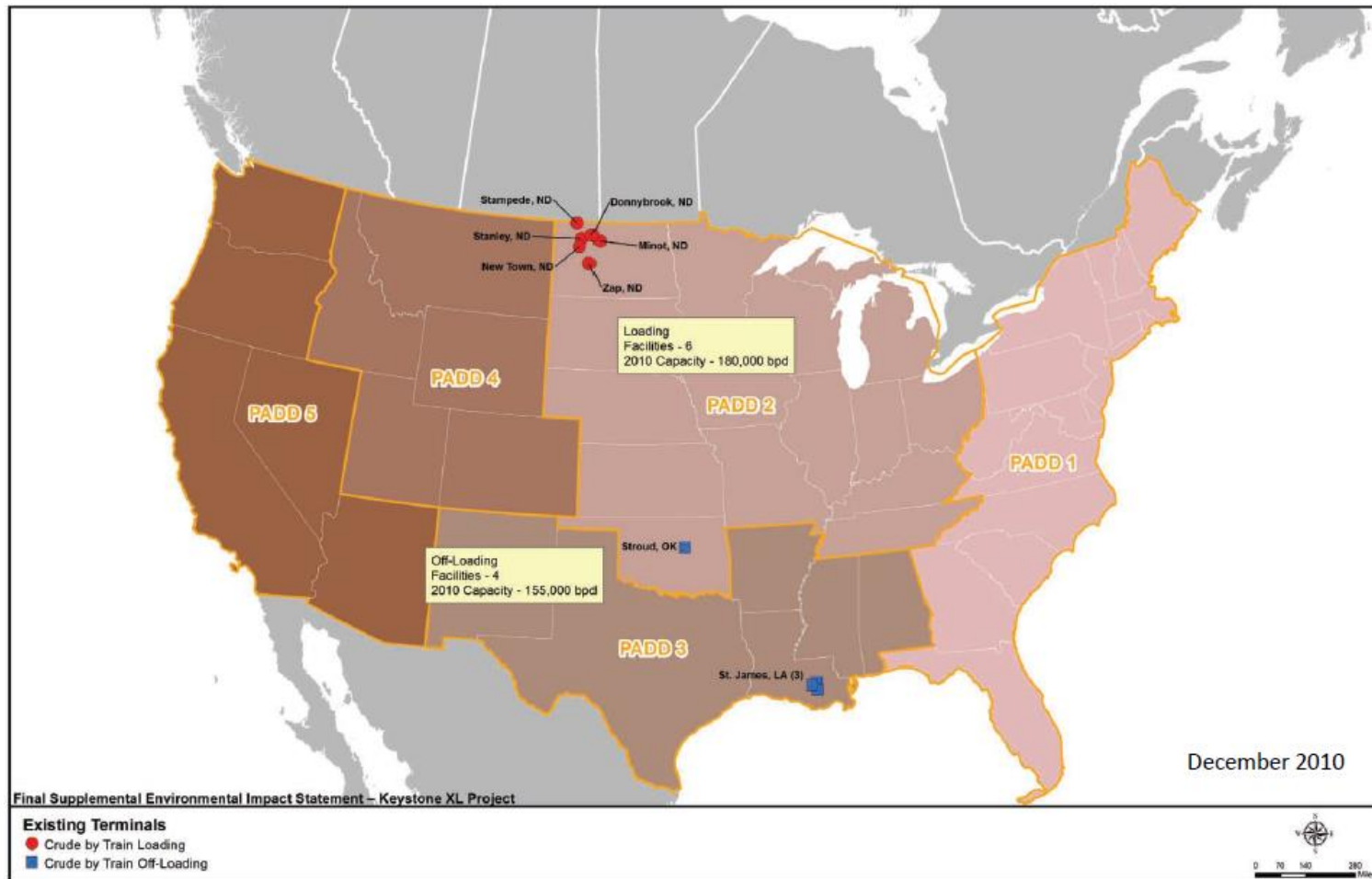
North Dakota is now the second-largest oil producing state (behind only Texas), producing 660,000 barrels per day – double its output from just two years ago.



Source: North Dakota Department of Mineral Resources (production figure), NPR, NASA Earth Observatory.

Driver #2 – Domestic Energy: Several years ago, there was little infrastructure to support the transport of oil from ND to the refineries...

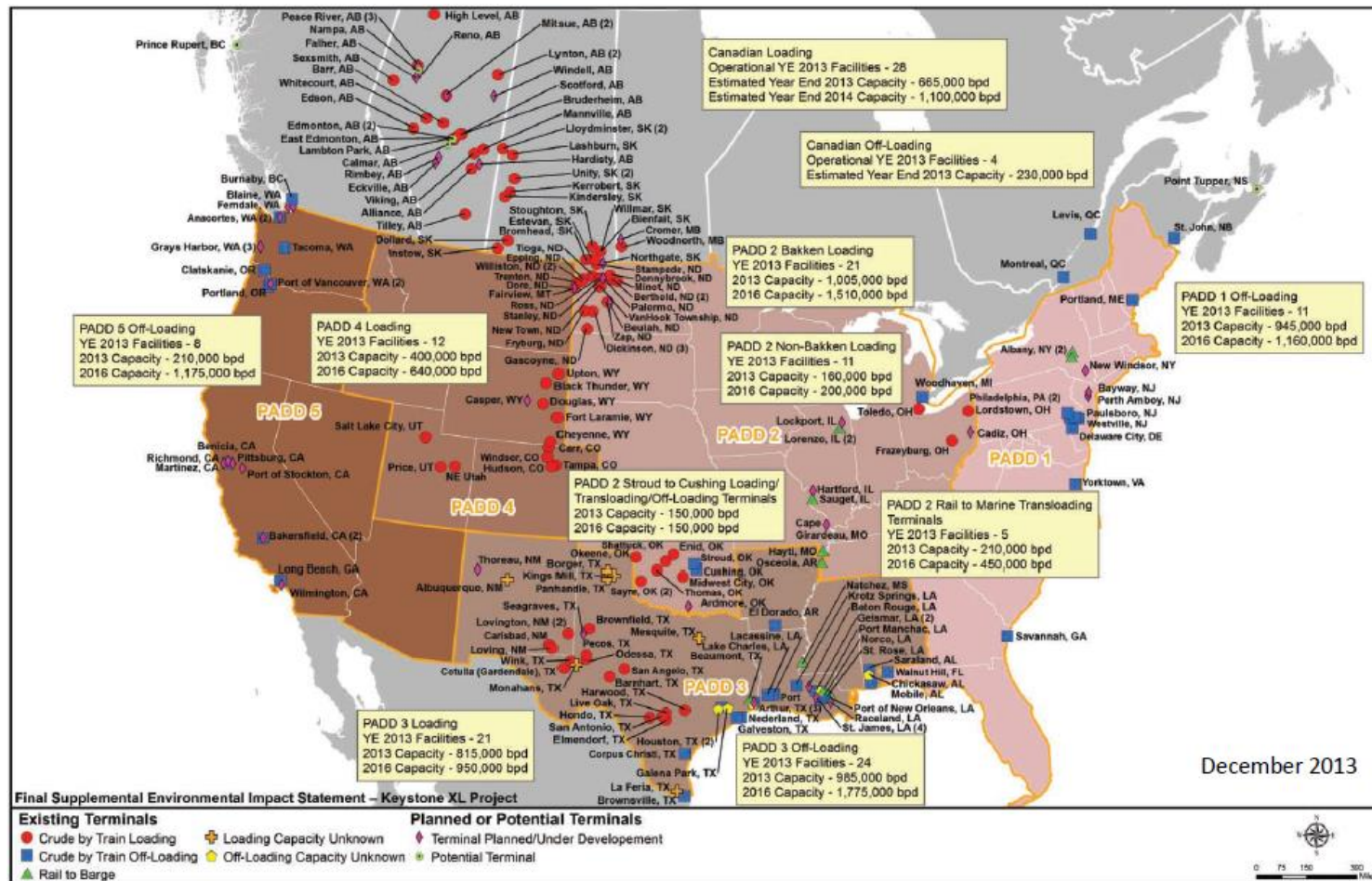
Crude by Train Loading and Off-loading Facilities in 2010:



Source: U.S. Department of State Final Supplemental Environmental Impact Statement on the Keystone XL Pipeline Project, the Economic and Social Research Institute.

Driver #2 – Domestic Energy: Over the past three years though, the landscape has changed dramatically.

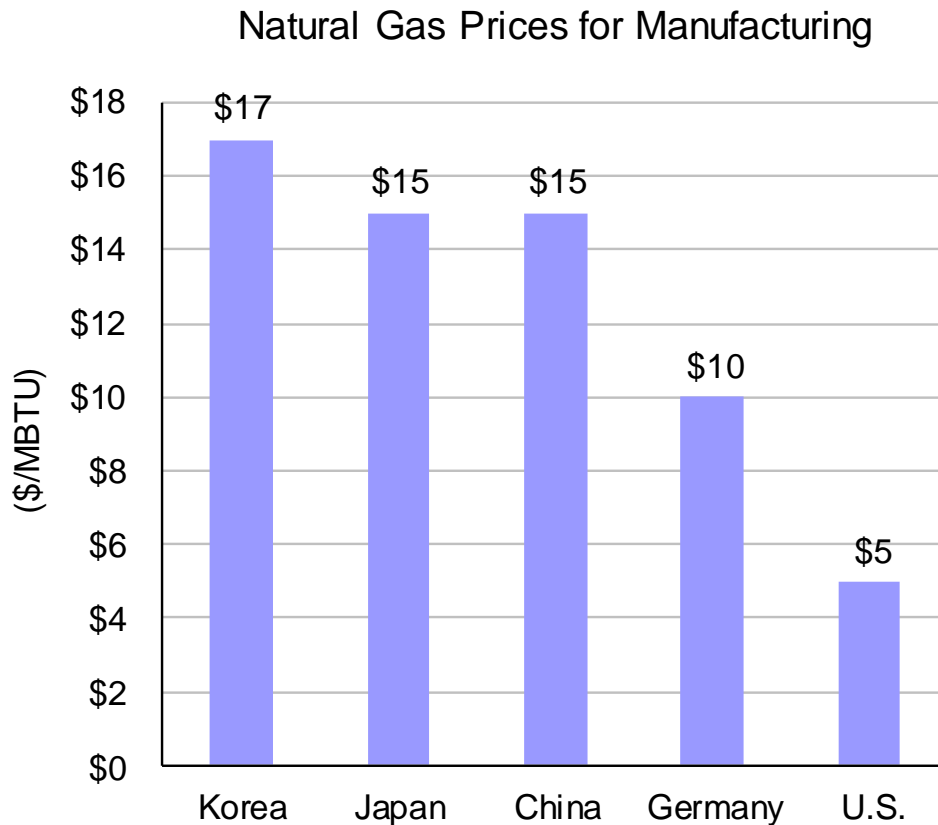
Crude by Train Loading and Off-loading Facilities in 2013:



Source: U.S. Department of State Final Supplemental Environmental Impact Statement on the Keystone XL Pipeline Project, the Economic and Social Research Institute.

Driver #2 – Domestic Energy: U.S. becoming a low-cost production destination.

Low relative gas prices make the U.S. a very cost-competitive manufacturing location for industries that have a large energy input, such as chemicals, steel, paper and mining.

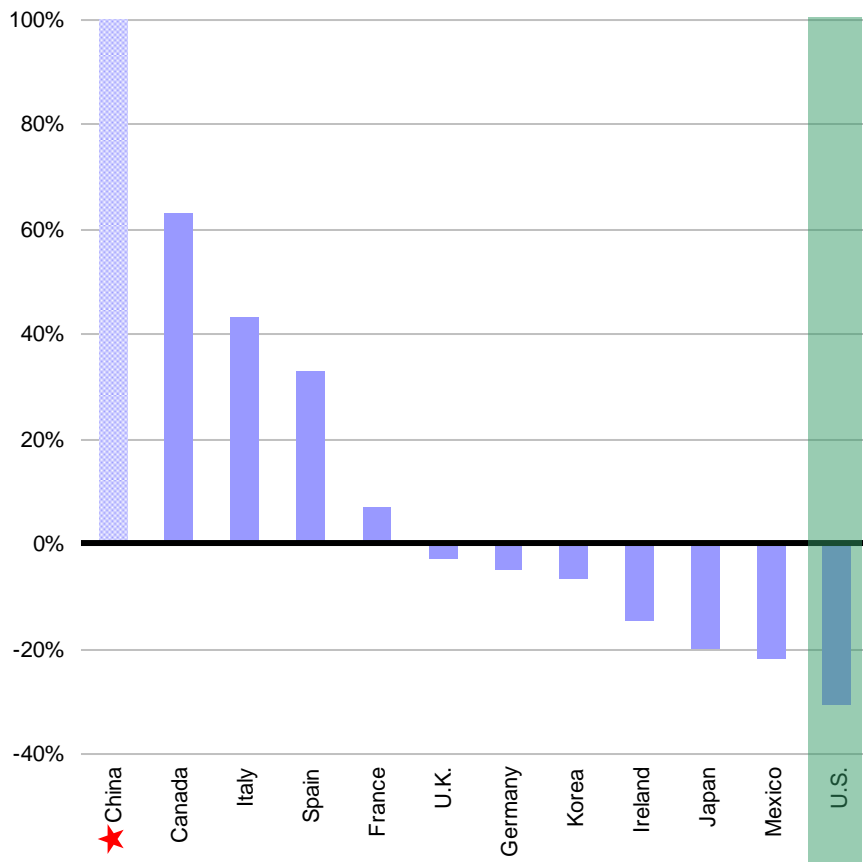


- Exxon plans to build a chemical plant in Texas to take advantage of cheap natural gas prices.
- Huntsman will expand production in the U.S. due to low natural gas prices.
- Petrochemical makers, including Dow and Shell, are adding capacity because of low-cost energy.
- Methanex, a Canadian company, will relocate a plant from Chile to Louisiana due to low natural gas prices.
- Tire manufacturers Continental and Michelin are moving production from Europe to the U.S.

Source: Federal Energy Regulatory Commission; Bloomberg as of 2/28/2014.

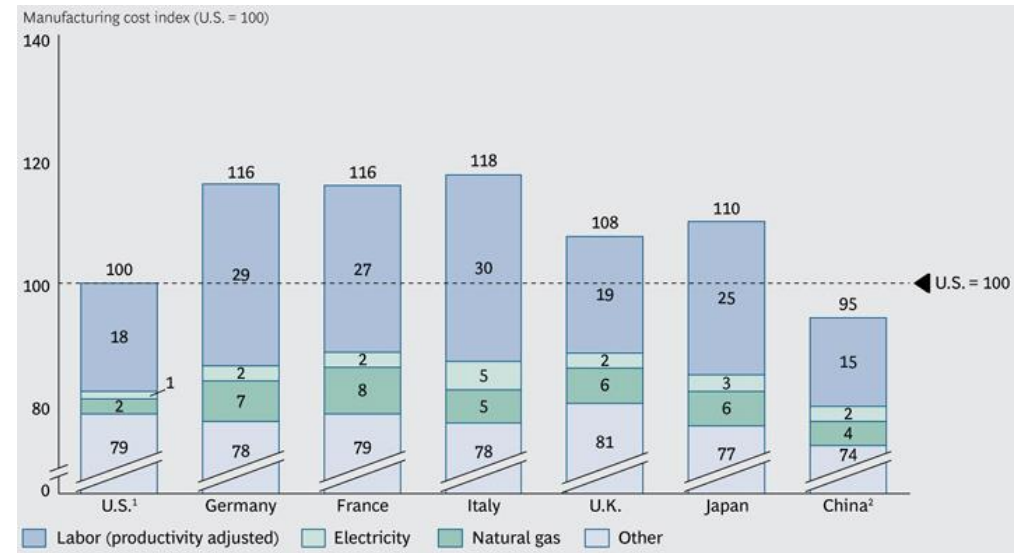
Driver #3 – U.S. Manufacturing: American labor costs competitive relative to both developed and emerging markets.

Change in Real Unit Labor Costs Since Q1 2002:



★ Official estimates for China not available, but understood to be significantly higher than Canada.

Average Projected Manufacturing Cost Structure:



Source: Organization for Economic Cooperation and Development (OECD), Bank for International Settlements, Haver Analytics, FAM (AART) through 12/31/12 (left); Boston Consulting Group (right).

Driver #3 – U.S. Manufacturing: Renaissance has already begun. Potential job growth over the next decade is 2-3 million.

Countless Examples Across Sectors:

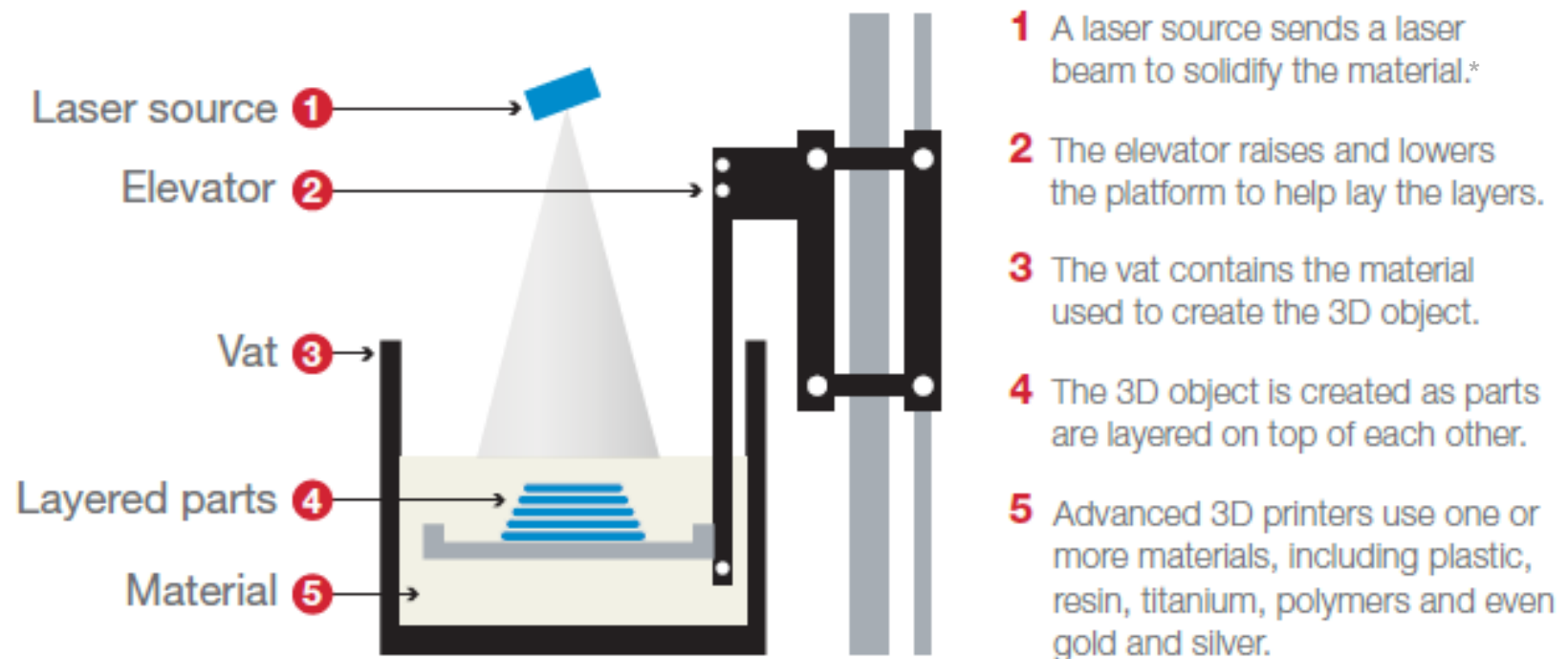
Company	Clip	Company	Clip
Airbus	Airbus will build a factory in AL assembling planes with non-union workers and using dollars.	Apple	Apple is investing more than \$100M to bring production for one Mac line from China back to the U.S.
Caterpillar	Caterpillar will build a factory in GA and expand a manufacturing facility in SC to create 80 jobs.	Lenovo	Lenovo will be adding 115 manufacturing jobs in Whitsett, NC.
Coleman	Coleman is moving its production of wheeled plastic coolers from China to Wichita, KS.	Ford	Ford reached a 4-year labor agreement in 2011 that added 12,000 new U.S. manufacturing jobs and added 1,200 additional workers at its Michigan plant in Sept. 2012.
Continental	Continental will be spending \$524 million and adding 1,200 jobs as it builds a new tire plant in the U.S.	NEC	Japanese electronics company NEC is shifting production of 5,000 laptops per month from Japan to Seattle.
Electrolux	Electrolux plans to close its Quebec plant and move to a new plant in Memphis to lower costs.	Toshiba	Toshiba shifted production of computers from Japan to its Irvine, CA plant, a move that will add 100 new workers.
Element Electronics	Element Electronics is moving production of flat panel TVs from China to Detroit.	NCR	NCR hired 500 workers in Columbus, GA to build ATMs NS self-service checkout systems and plans to add another 370 jobs by 2014.
GE	GE is creating three new manufacturing and R&D facilities and will hire up to 650 in the U.S., and announced it will bring back 800 jobs from Mexico to KY.	ONEOK	ONEOK is in the process of building a \$1.5 billion Bakken crude express pipeline.
Honda	Honda's choice to build its "supercar" in OH highlights confidence in the U.S.	Rioglass Solar	Rioglass solar is spending \$100 million to build a solar reflector plant in Arizona.
Jacobs	Jacobs awarded a \$1B contract for pipe manufacturing in Texas.	Mitsubishi Electric	Mitsubishi is building a plant near Memphis that will employ 275 new workers.
Marinetek	Marinetek, a Finnish company, opened its North American headquarters in Florida and will create manufacturing jobs.	Samsung	Samsung is investing \$3.6 billion on expansions to its Texas factory.
Maserati	Maserati will manufacture a car in Michigan.	Dow Chemical	Dow is spending \$4 billion to build an ethylene plant in Texas.
Master Lock	Master Lock is moving production from China to Milwaukee.	Shell	Shell is building a multibillion-dollar petrochemical refinery outside of Pittsburgh.
Michelin	Michelin will invest \$950M and expand its Earthmover tire plant in SC, which will create 800 new jobs.	U.S. Steel	U.S. Steel is spending \$95 million to expand its tubing plant in Ohio.
Nissan	Nissan will increase production in Americas from 70% of vehicles sold in the region to 85%.	BMW	BMW is investing \$900 million to expand its SC manufacturing facility.
Otis Elevator	Otis Elevator is moving production from Mexico to SC.	Google	Google's new wireless home media player is being manufactured in the U.S.
Siemens	Siemens closed its plant in Ontario, moving production to an existing plant in NC in part due to lower labor costs.	Norfolk Southern	Norfolk Southern expects to add 275 jobs with the \$160M expansion of an Ohio rail yard.
Stanley Furniture	Stanley Furniture shifted its crib manufacturing back to the U.S. from China.	Rolls-Royce	Rolls-Royce will build a manufacturing facility in Indianapolis to produce aircraft engines.
Starbucks	Starbucks taps U.S. factory, not China, for its coffee mugs.	Volkswagen	VW hiring 800 U.S. workers at its TN plant to meet demand for its Passat model, which will be \$8,000 less than the current \$28,000 model made in Germany.
Toyota	Toyota to move production of its Highlander SUV to Indiana for export.	Whirlpool	Whirlpool brought back production of KitchenAid mixers to the U.S. from China.

Source: ISI, Capital Group, FFAS Capital Markets Strategy Group. Job growth estimate source: Boston Consulting Group.

Driver #4 – 3D Printing: How does it work?

HOW 3D PRINTING WORKS

3D printers work like inkjet printers. Instead of ink, 3D printers deposit the desired material in successive layers to create a physical object from a digital file.



*Typical materials include plastic, metal, gypsum, ceramic, and glass powders. Source: T. Rowe Price.

Driver #4 – 3D Printing: What are the applications?

- Auto and Aerospace:

- Boeing uses 3D printing to create 200 parts across 10 aircraft platforms.
- GM uses 3D printing to produce 20,000 parts per year for use in testing, production, and molds.



- Medicine and Dentistry:

- More than one million 3D-printed hearing aid pieces sold in 2011.
- Dental appliance maker Invisalign produces 50,000 appliances/ day using 3D printing.
- The first commercial 3D bioprinter was developed in 2009 and is capable of printing simpler tissues such as skin and blood vessels. Bioprinting involves the creation of replacement tissue and organs printed layer-by-layer into a 3D structure.

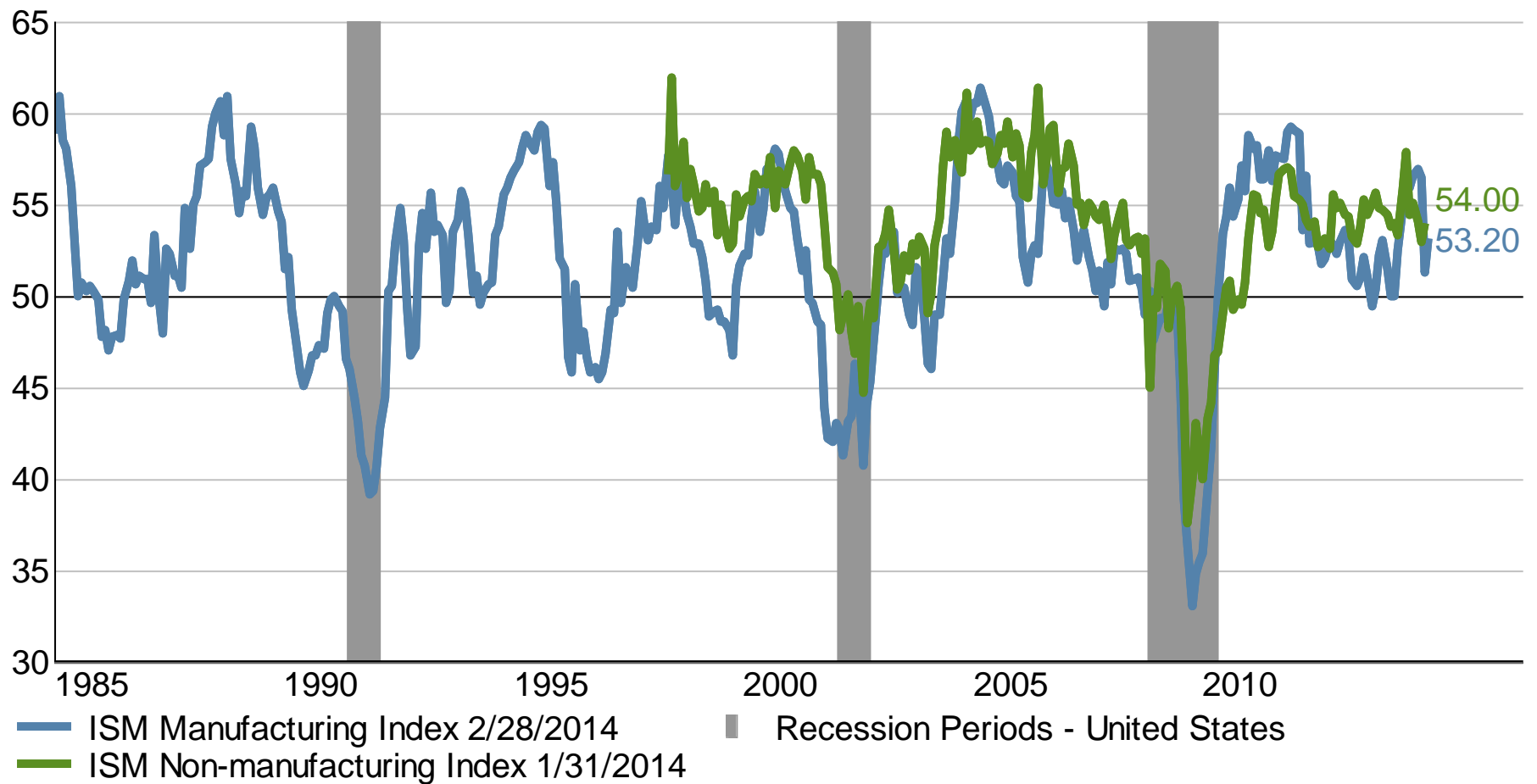


- Personal and Consumer Products:

- Prices for basic 3D printers have fallen from over \$30,000 several years ago to under \$1,000 today.
- Staples is rolling out a 3D printing service in Holland and Belgium that allows customers to upload a 3D design and pick up the finished product at their local store.

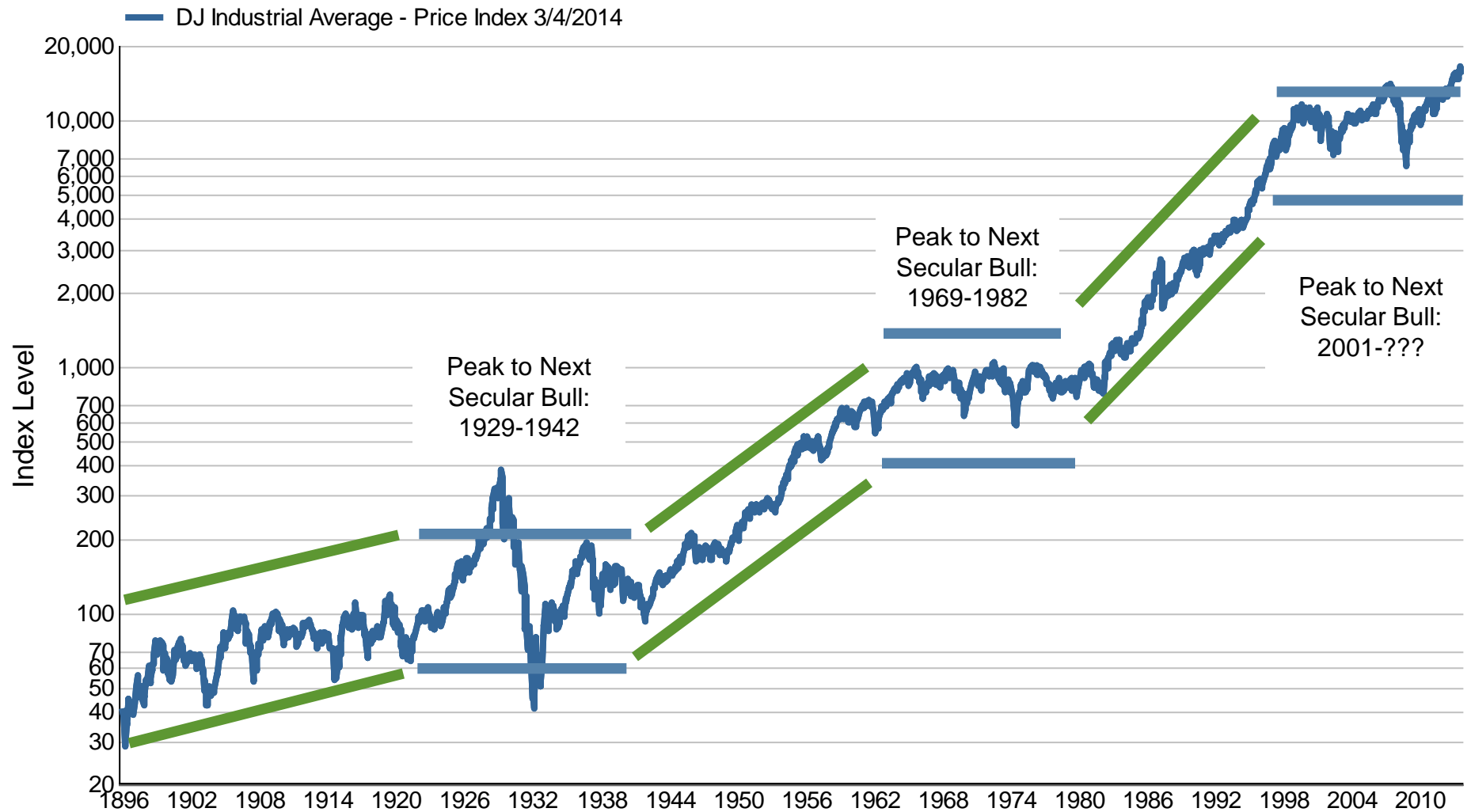
Source: McKinsey Global Institute; T. Rowe Price.

...Which are already starting to come through in the economic data.



Source: FactSet

It appears that we could now be entering into a new secular bull market.



Source: FactSet. Past performance is no guarantee of future results.

What do “normal” equity returns look like?

S&P 500 Forward P/E Multiples and Returns:

One-Year Returns:

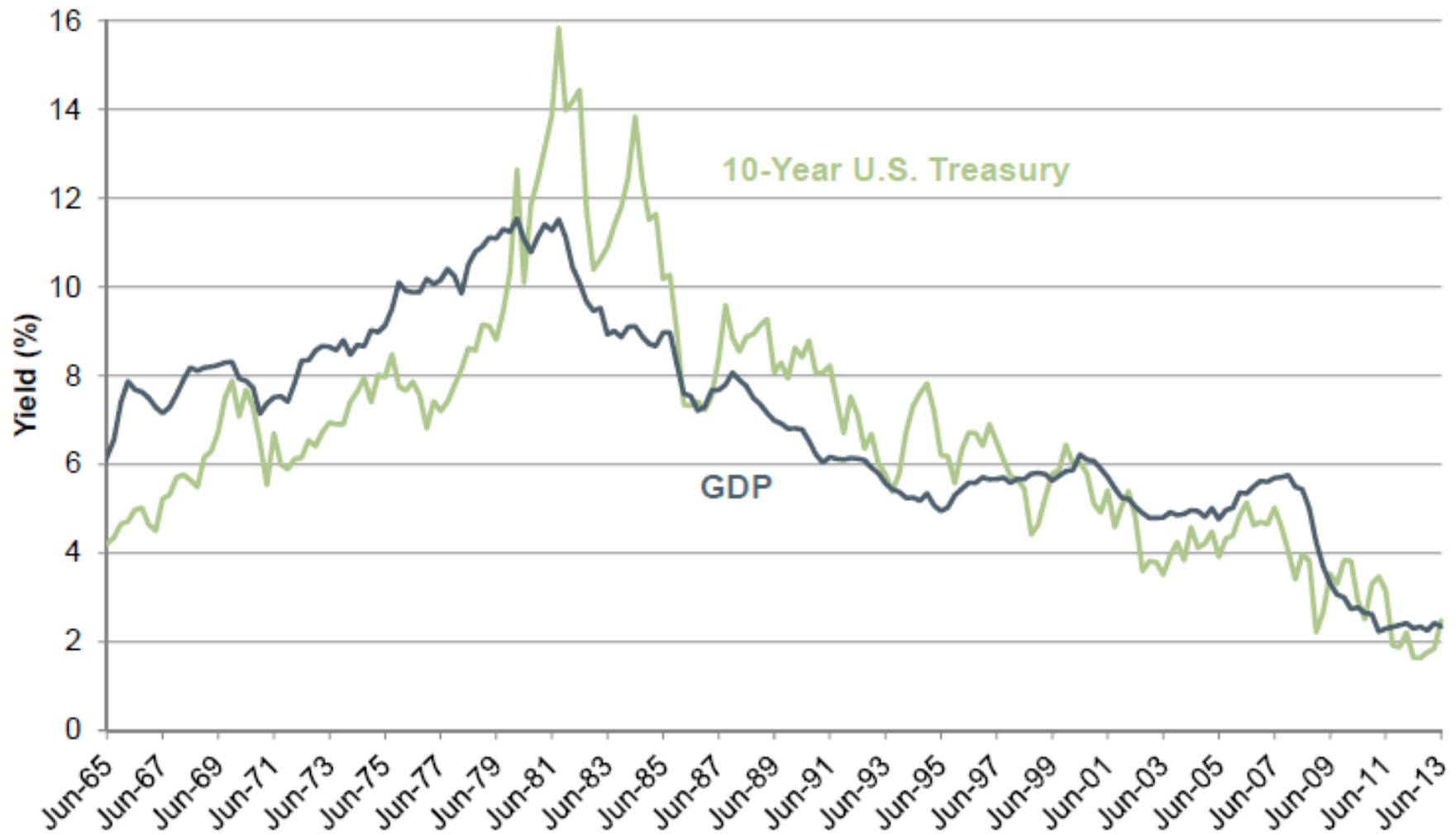
P/E Range:	Average	Median
<10	13.6%	13.9%
10-12	10.4%	9.6%
12-14	12.6%	13.4%
14-16	11.4%	14.1%
16-18	5.1%	8.1%
18-20	8.2%	7.7%
20-22	-0.1%	1.7%
22-25	4.2%	5.3%
>25	-4.7%	-10.1%

Three-Year Returns:

P/E Range:	Average	Median
<10	11.7%	15.5%
10-12	11.1%	13.5%
12-14	9.1%	8.1%
14-16	10.7%	9.9%
16-18	4.7%	3.9%
18-20	5.2%	4.7%
20-22	6.5%	7.7%
22-25	4.6%	4.1%
>25	-5.6%	-3.7%

Source: Bloomberg, Haver Analytics, Gluskin Sheff. Highlighted region reflects a forward P/E ratio of 15.11 as of 12/31/2013.

It also appears as though interest rates have normalized.



Source: Bloomberg. GDP data represents annualized 20-quarter percent change.

What do “normal” fixed income returns look like?

U.S. 10-Year Treasury Yields and Returns:

One-Year Returns:

Yield Range (%)	Average:	Median:
<2	-2.2%	-3.4%
2-3	3.7%	5.1%
3-4	5.5%	4.8%
4-5	3.8%	3.9%
5-6	4.1%	4.0%
6-7	6.5%	4.6%
7-8	8.7%	8.0%
8-9	8.9%	9.1%
9-10	9.4%	13.0%
10-12	11.5%	6.0%
12-14	19.7%	17.4%
>14	33.3%	36.3%

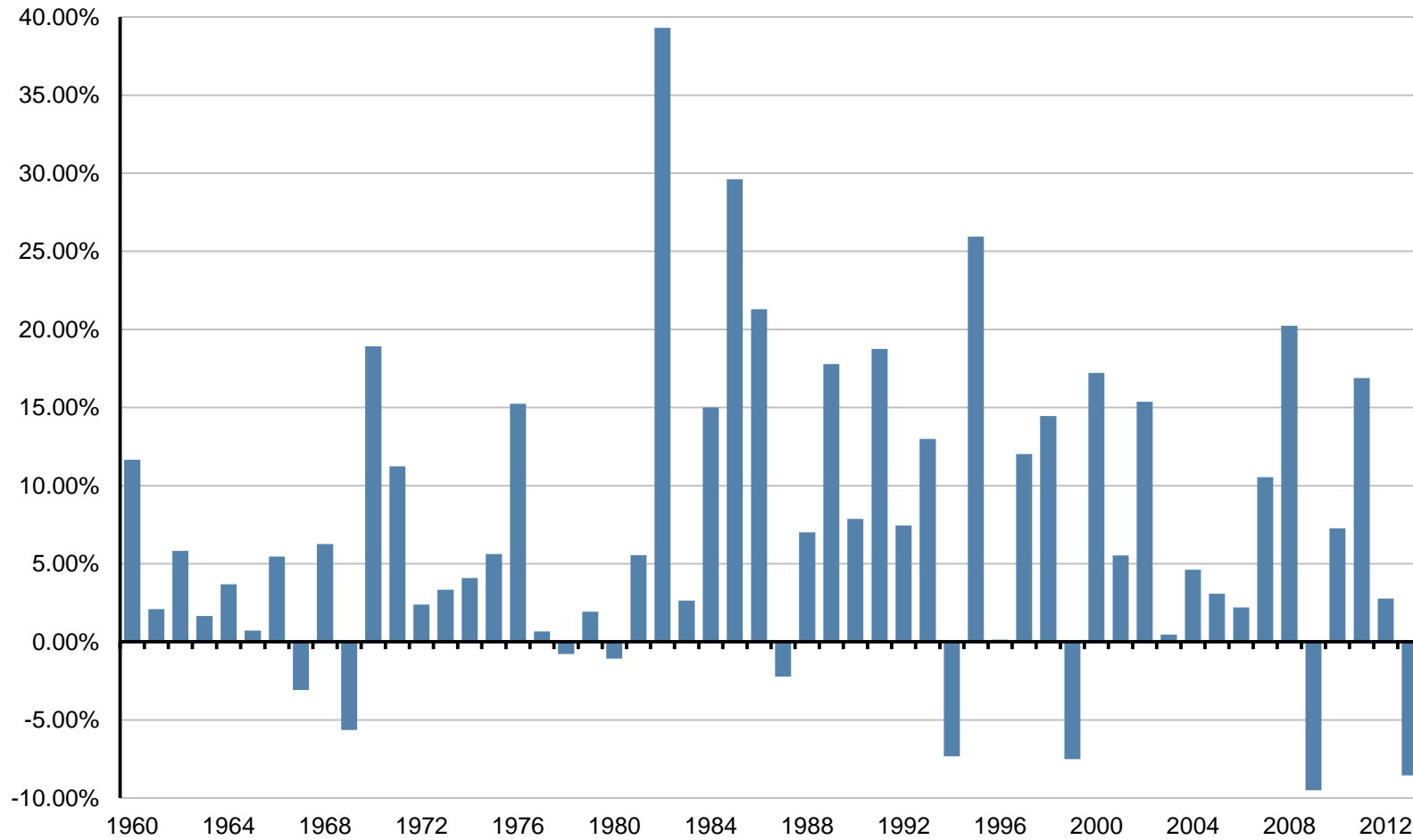
Three-Year Returns:

Yield Range (%)	Average:	Median:
<2	N/A	N/A
2-3	3.6%	3.5%
3-4	4.5%	3.3%
4-5	4.0%	3.6%
5-6	5.6%	6.1%
6-7	6.7%	6.9%
7-8	6.4%	6.8%
8-9	8.3%	9.3%
9-10	8.6%	9.6%
10-12	15.5%	14.9%
12-14	17.4%	17.4%
>14	18.0%	18.0%

Source: Bloomberg, Haver Analytics, Gluskin Sheff. Highlighted region reflects a 10-year Treasury yield of 2.65% as of 1/31/2014.

Bar-to-bar losses in fixed income are also quite rare...

10-year Treasury Annual Return



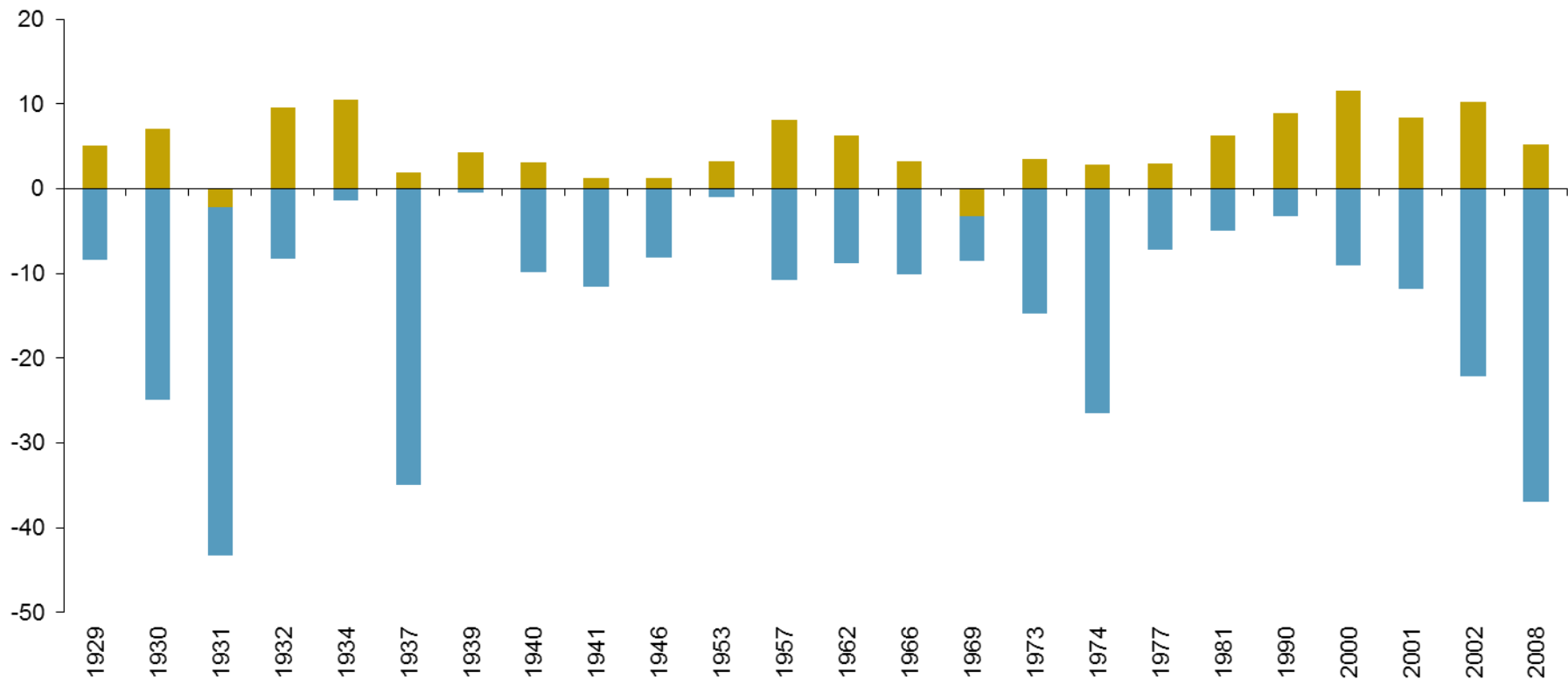
Source: Federal Reserve Board, Global Financial Data.

...And bonds tend to stabilize portfolio returns in years when stocks returns are negative.

Bond Returns in Years Stocks Were Down, 1926-2012

■ S&P 500 ■ Investment-Grade Bonds

Calendar Year Total Return (%)



Bond returns are represented by the performance of the Barclays Aggregate Bond Index from January 1976 through December 2012 and by a composite of the IA SBBI Intermediate-Term Government Bond Index (67%) and the IA SBBI Long-Term Corporate Bond Index (33%) from January 1926 through December 1975. Stock returns are represented by the performance of the S&P 500 Index. Past performance is no guarantee of future results. It is not possible to invest directly in an index. Index performance is not meant to represent that of any Fidelity mutual fund. Diversification does not ensure a profit or guarantee against a loss. Source: Morningstar EnCorr, Fidelity Investments (AART) as of 12/31/13.

Recap: what does “normal” mean?

- **Equity market returns likely exceeding bond market returns.**
- **Equity market corrections occurring at a normal frequency:**
 - **Three corrections per year greater than 5%.**
 - **One correction per year greater than 10%.**
 - **One correction every three years greater than 20%.**
- **Fixed income returns will likely be modest, but positive.**
- **Fixed income securities should provide diversification benefits and act as a cushion against equity market corrections.**

Stock markets, especially foreign markets, are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments. In general the bond market is volatile, and fixed-income securities carry interest rate risk. (As interest rates rise, bond prices usually fall, and vice versa. This effect is usually more pronounced for longer-term securities.) Fixed-income securities also carry inflation, credit, and default risks for both issuers and counterparties.

Glossary of terms

Index of Coincident Indicators. An index published by the Conference Board that is a broad-based measurement of current economic conditions, helping economists and investors to determine which phase of the business cycle the economy is currently experiencing.

Index of Leading Indicators. An index published monthly by the Conference Board used to predict the direction of the economy's movements in the months to come. The index is made up of 10 economic components, whose changes tend to precede changes in the overall economy.

P/E Ratio. A valuation ratio of a company's current price compared to its per-share earnings.

Forward P/E. A measure of the price-to-earnings ratio (P/E) using forecasted earnings for the P/E calculation. While the earnings used are just an estimate and are not as reliable as current earnings data, there is still benefit in estimated P/E analysis. The forecasted earnings used in the formula can either be for the next 12 months or for the next full-year fiscal period.

GDP. The monetary value of all the finished goods and services produced within a country's borders in a specific time period, though GDP is usually calculated on an annual basis. It includes all of private and public consumption, government outlays, investments and exports less imports that occur within a defined territory.

Index YTW. Index YTW or yield to worst is a yield measure that expresses the worst possible yield based on certain provisions such as prepayment, call, or sinking fund.

Basis Point. One basis point represents one hundredth of one percent. For example, 50 basis points equals 0.5%.

Index definitions

The Russell 1000 Index is an unmanaged index that consists of the largest 1000 companies in the Russell 3000 Index. This index represents the universe of large capitalization stocks from which most active money managers typically select. The Russell 1000 Value and Growth indices comprise of value and growth stocks respectively as determined by Frank Russell & Co.

The Russell MidCap Index is an unmanaged market capitalization weighted index of 800 smallest companies in the Russell 1000 index which represents almost 35% of the total market capitalization. The Russell MidCap Value and Growth indices comprise of value and growth stocks respectively as determined by Frank Russell & Co.

The Russell 2000 Index is an unmanaged market capitalization-weighted index of 2,000 small company stocks. The Russell 2000 Value and Growth indices comprise of value and growth stocks respectively as determined by Frank Russell & Co.

Barclays Capital US Agg. Government-Treasury is an unmanaged index comprising all US Treasury Notes and Bonds having a maturity of at least 1 year.

Barclays Capital Municipal Bond is an unmanaged index of all investment grade municipal securities with at least 1 year to maturity.

Barclays Capital US Aggregate Corporate (BAA) is an unmanaged index composed of all publicly issued, fixed interest rate, nonconvertible, investment grade corporate debt rated BAA with at least 1 year to maturity.

The Merrill Lynch High Yield Master Index consists of fixed-rate, coupon-bearing bonds with an outstanding par that is greater than or equal to \$50 million, a maturity range greater than or equal to one year, and a rated single C, but not in default.

JP Morgan EMBI Global is a market value weighted index of US dollar denominated Brady bonds, Eurobonds, traded loans, and local market debt instruments issued by emerging market sovereign and quasi-sovereign entities, covering 27 emerging market countries.

Merrill Lynch US Corps./Real Estate is a market weighted bond index comprised of issuers involved in real estate.

CSFB Leveraged Loan Index is a market weighted index of high yield floating rate US corporate debt instruments.

Merrill Lynch US High Yield Master II is a market value weighted index of corporate bonds publicly issued in the U.S. domestic market that have a rating of less than BBB3 and at least one year remaining term to maturity.

Barclays Capital US Aggregate is an unmanaged market value weighted performance benchmark for investment-grade fixed rate debt issues, including government, corporate, asset backed, mortgage backed securities with a maturity of at least 1 year.

S&P GSCI Gold is an index tracking changes in the spot price for gold bullion.

GDP is the total value of goods and services produced in the US. Real GDP is GDP adjusted for changes in prices.

The S&P 500 Index is a registered service mark of The McGraw-Hill Companies, Inc. and has been licensed for use by Fidelity Distributors Corporation and its affiliates. It is a unmanaged market capitalization-weighted index of common stocks.

The Dow Jones Industrial Average is a unmanaged price-weighted average of 30 blue-chip stocks that are generally the leaders in their industry and are listed on the New York Stock Exchange.

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Diversification
Dedicated Support

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