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Fidelity Funds – US Dollar Bond Fund

31 August 2024

For existing investors in the Fidelity Funds – US Dollar Bond Fund ('the Fund') only.
Thank you for investing in the Fund. We would like to use this opportunity to give you an update on the Fund's performance. Please note that this is not a product advertisement or solicitation for investment in the Fund.

How has the Fund performed in August 2024?

- The Fund returned 1.8%[1] (for the A-ACC-USD share class in USD terms) and 1.7%[1] (for the A-MINCOME(G)-SGD (hedged)* share class in SGD terms).

Reasons for performance

- Global markets got off to a rocky start in August as weak US jobs report and unemployment data sparked fears of a hard landing with risky assets repricing on concerns of a US recession. An interest rate hike by the Bank of Japan in late July and a massive unwinding of the Yen carry trade also added to the volatility. However, prospects of lower US interest rates helped markets to rebound over the month with improved breadth.
- US dollar bond markets advanced over the month with US spreads marginally tightening. US Treasury (UST) yields fell across the curve, particularly at the shorter end owing to the risk-off sentiment. Sovereign bonds performed well in the month as did precious metals.
- The Fund posted positive returns, outperforming its benchmark[2] in August with our duration positioning contributing to performance. Our overweight in the UST 5-10 year part of the curve aided performance.
- German bunds performed well and our marginal overweight in the asset class contributed.
- Conversely, our exposure to UK Gilts was a marginal detractor as Gilts underperformed with the Bank of England appearing more hawkish than its global peers.
- Our overall underweight position in credit detracted from performance as US spreads marginally tightened but this was offset by our positive credit selection such as our underweight in Intel which performed poorly.

Outlook / Expectations

- We continue to be cautious on the US economic outlook and remain defensively positioned with an underweight in credit.
- Our cautious view on the US growth outlook is premised on the weak US consumer who is trading down with inflation shocks hitting purchasing power, as evidenced by recent results announcements. The post-pandemic savings have also been eroded and the currently low US savings rate is also weighing on consumers.
- At the same time, US households are now less sensitive to interest rate changes than in the past and it remains to be seen how soon the Fed's rate cuts will feed into the real economy to achieve its intended effect of stimulating employment and growth.
- In terms of portfolio changes, we took some profit on German bunds.
- We remain defensive in credit and are underweight US investment grade credit as we think that spreads are still too expensive and have not sufficiently priced in a scenario of a US slowdown. We trimmed our credit positions as we expect a heavy supply in September, which is typically a busy month for new issues. In addition, we expect more issues coming up in the near term, ahead of the upcoming US election.
- We trimmed some of our financials positions such as selling Nomura and Lloyds, taking profit on credits that have done well. We also trimmed some healthcare exposure as these positions have played out well, and rotated proceeds into UST. We are well-positioned to rotate back into credit to close our underweight positions in certain sectors when we think the price levels are right.
- We participated in some new issues in August but are very selective and will continue to explore more new issues in September – but only at the right price level.
- As at 31 August 2024, the Fund's yield to maturity[4] was 4.2%, running yield[5] was 4.4%, duration[3] was 6.8 years and average credit rating[6] was AA-.

We remain confident that the Fund could continue to meet its objectives of **achieving capital growth over time and providing income**.

Source: Fidelity International, as at 31 August 2024.

1. The stated returns are computed on a NAV-NAV basis, with dividends reinvested in their respective currencies. They do not take into account the amount of initial sales charge, which may be levied by your distributor. The stated returns will be reduced when the applicable sales charge is being taken into account. Please note that past performance is not indicative of future returns. The 1-year return, net of sales charge of 3% for the Fidelity Funds – US Dollar Bond Fund A-ACC-USD and A-MINCOME(G)-SGD (hedged)* share classes are 4.03% and 2.18% respectively.
2. The reference benchmark is the ICE BofA Q4AR Custom Index.
3. Duration is a measure of sensitivity of the fund value to changes in interest rates and includes all investments in the fund including derivatives. It takes into account that expected cash flows will fluctuate as interest rates change and affect a bond's price.
4. Yield to Maturity is the internal rate of return earned on a bond, assuming that the bond will be held until maturity and all coupon and principal payments will be made. It is an estimation of future return, as the rate at which coupon payments can be reinvested when received is unknown.
5. Running Yield describes the income investors get from their portfolio as a percentage of market value of the securities (incorporating the effect of derivatives) and does not include the impact of fees. It should not be relied on as a measure of expected fund return. The running yield does not reflect the total return over the life of the bond and takes no account of reinvestment risk or the fact that bonds usually mature at par value.
6. Average Credit Rating is the weighted average of all the bond credit ratings in the fund. It takes into account all investments in the fund including derivatives. This measure gives an idea of how risky the fund's bonds are overall: the lower the average credit rating, the riskier the fund. With a Linear weighted average the weight assigned to each issue is equal to its market value weight.

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Singapore

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