In Hong Kong, this material is intended for Professional Investors only

# Fidelity Funds – US Dollar Bond Fund

31 January 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 January 2024?

- The Fund returned -0.5%[1] (for the A-ACC-USD share class in USD terms) and -0.6%[1] (for the A-MINCOME(G)-SGD (hedged)* share class in SGD terms).

## Reasons for performance

- The US dollar bond market paused its recent rally in January as the US Federal Reserve's less dovish stance at its January meeting, along with strong economic data, dashed investors' hope of imminent rate cut.
- The Fund delivered negative returns for the month, underperforming its index[2]. Credit contributed the most to the excess returns, however both duration and currency positionings detracted.
- Within credit, the fund's overweight allocations to financials supported performance, along with our underweight positioning in quasi-sovereigns. On an individual issuer level, UBS and Santander were notable contributors to the relative performance.
- The Fund's FX positionings were negative as USD regained strength amid resilient economic data and the less dovish Fed.
- There were no notable detractors for the month.

## Outlook / Expectations

- We remain cautious on US economy in 2024. The US consumer remains the key to short-term US economic growth, given that capital expenditures, net exports and fiscal spending are all expected to be subdued in terms of their potential contribution to GDP growth.
- As the fiscal impulse turns negative in early 2024, excess savings become exhausted, and monetary aggregates fall, we believe this is going to exert downward pressure on inflation and could create a disinflationary environment.
- Against this backdrop, the fund remains defensively positioned and concentrated in high-quality corporate and government bonds, with minimal exposure to high yield (HY) and emerging market (EM) assets due to unfavourable risk-reward dynamics.

- With global inflation on a downwards trajectory, we retain our long duration positioning in USD, GBP, EUR and AUD. We have however, added a small, short position in Canadian duration.
- For key positioning changes in January, we reduced exposure to financials as we believe investors will shift their focus away from earnings towards asset quality and deployed the proceeds into government bonds, short-dated paper and new issuances. We also trimmed our long position in AUD duration due to valuation concerns.
- As at 31 January 2024, the Fund's yield to maturity[4] was 4.3%, running yield[5] was 4.4%, duration[3] was 6.9 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 January 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 is -1.03%. The A-MINCOME(G)-SGD (hedged)* share class was launched on 22 February 2023.
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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**CA-2024-1739871-(G)**

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**HK-SSO-2024-1751658-NR**