Fidelity Funds (FF) – US Dollar Bond

Monthly Fund Update

Important Information

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. Any funds referenced here do not offer any guarantee or protection with respect to return, capital preservation, stable net asset value or volatility.

Bonds: There is a risk that the issuers of bonds may not be able to repay the money they have borrowed or make interest payments. When interest rates rise, bonds may fall in value. Rising interest rates may cause the value of your investment to fall.

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: Funds may invest in overseas markets and so the value of investments 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: This fund invests in emerging markets which can be more volatile than other more developed markets.

Derivatives: Funds may make increased and more complicated use of derivatives, and this may result in leverage. In such situations performance may rise or fall more than it would have done otherwise. Funds may be exposed to the risk of financial loss if a counterparty used for derivative instruments subsequently defaults.

Other: 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.

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Objective	The fund aims to achieve capital growth over time and provide income.
Investment Policy	The fund invests at least 70% (and normally 75%) of its assets, in US dollar denominated debt securities. Then fund may also invest in money market instruments on an ancillary basis.
Benchmark	ICE BofA Q4AR Custom Index
Fund Domicile and Legal Vehicle	SICAV
SFDR Classification	Article 8

Fidelity Funds - US Dollar Bond is an Article 8 aggregate strategy offering a unique investment proposition to investors looking for a high-quality, defensive core bond allocation. The strategy's active and nimble approach is particularly suited to the current volatile environment, and the fund's strong long-term track record demonstrates the robustness of the investment process and management team through different market cycles.

Performance and Attribution

- **July 2024** - the fund returned 2.0%^ in July (gross of fees), with its benchmark returning 2.2%. We expect that our defensive credit positioning held back gains in the first half of the month, while our duration positioning was net neutral. There were no significant single name contributors or detractors to relative performance.
- **YTD 2024** - the fund returned 0.7%^ YTD, with its benchmark returning 1.8%. While our credit positioning was positive for relative performance, unfortunately the fund's duration and currency bets detracted from relative returns. Within credit, the funds overweight positions in the banking and healthcare sectors added to returns. This is evident in the top single name contributors to returns, where overweight positions in Teva (a pharmaceutical company), Banco Santander, ABN AMRO and UBS (all national champion European banking issuers) contributed more than 5 bps apiece to relative performance. From a credit perspective, there were no significant sectors or single names that detracted from relative returns. On the duration side, our long bias to US duration has detracted from returns YTD as yields have increased on stronger than expected economic and inflation data in the first quarter of 2024. We're beginning to see a shift in this narrative which could be supportive of this position going forwards.

Positioning

- **Unchanged duration positioning** - our long duration position has been built on the view that the Fed need to move 6-12 months ahead of a slowdown; leading indicators were suggesting that they need to act sooner rather than later. What has now been priced into markets is more representative of how we feel the Fed need to adjust policy rates to prevent a broader slowdown. Though we have seen a large repricing in front end we retain a long duration bias across USD, EUR and GBP in the portfolio. A slowdown in the US is likely to prompt a broader slowdown globally and we're positioning for the lagged impact that this could have to global DM economies. Overall, the portfolio is 0.6 years long duration, with 0.25 year each in US and German duration and 0.1 years in UK duration.
- **Selectively adding into areas of underperformance-** in asset allocation terms, the portfolio remains biased towards government bonds rather than corporate bonds given our belief that there is limited value in the corporate bond market and the direction of travel for spreads is likely wider from here. However, we have been looking for opportunities in the move wider in spreads in early-August. Underperformance has been seen in 4 key areas: emerging market sovereigns, autos, 3-5-year callable paper and BB issuers. We have selectively added to certain BB-names that are on our high yield 'investable list' and are also looking closely at opportunities within emerging markets.

^Source: Fidelity International, 31 July 2024. Performance basis: NAV-NAV, with income reinvested, in USD terms, rounded off to one decimal place. Performance figures for Fidelity Funds - US Dollar Bond Fund A-USD share class. Comparison Index: ICE BofA Q4AR Index, a custom ICE US Government & Large Cap Corporate Bond index (B0AL Index) which excludes the Federal Reserve's SOMA holdings. Holdings can vary from those in the index quoted. For this reason, the comparison index is used for reference only. Past performance is not indicative of future performance.

Outlook

As the market has moved to price in a number of cuts into the next year, our focus has shifted to how effective these cuts are likely to be in providing a stimulus to the real economy. General financial conditions for large businesses are very healthy with tight credit spreads with open financing conditions both in public and private spaces. However, for small and medium sized businesses, and individual borrowers with lower FICO scores, there is a very different story as the access to credit is limited and the cost is at multiyear highs. One or two Fed cuts are unlikely to change this picture, and hence the impact to growth and employment will have to come from other sources e.g., the housing market or an improvement to real disposable income for consumers.

Our concerns on the consumption portion of GDP growth remain. Recently has this started to playout more broadly, as a range of consumer facing sectors are reporting weaker conditions as consumers face up to the sticker shock of sharply higher prices. Discretionary spending will likely take the brunt of this fall, including leisure spending which up until now had benefitted from a post-pandemic drive and a stronger US dollar boost to outbound tourism flow. We expect a number of sectors to face tougher pricing conditions, leading to a need to invest into lowering prices, in order to preserve market share.

The picture for the employment outlook is mixed with a cloudy data picture: a vast increase in inward migration into the labour market, a shift in balance between part time and full time work, a polarising picture when looking at establishment based surveys vs household surveys and a sharp series of backward revisions due to distorted seasonals and business birth/death adjustments. However, on balance, leading indicators suggest a broadening in the slowdown. This slowdown will remain a key focus for the Fed in its upcoming meetings and thus influence decisions made on rate cuts in the coming months.

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