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Fidelity Funds – US Dollar Bond Fund

30 June 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 June 2024?

- The Fund returned 1.3%[1] (for the A-ACC-USD share class in USD terms) and 1.2%[1] (for the A-MINCOME(G)-SGD (hedged)* share class in SGD terms).

Reasons for performance

- The US dollar bond market continued to strengthen in June as US Treasuries saw another volatile month but ended the period tighter across the curve. The European Central Bank and the Bank of Canada embarked on their rate-cut cycle, while politics overshadowed raising volatility especially following France's snap elections.
- In terms of credit performance, US Investment Grade spreads widened over the month though the global backdrop has improved, and credit has been surprisingly resilient thus far.
- The Fund posted positive returns and outperformed its benchmark[2] with duration and credit positioning supporting performance.
- Our overweight in duration positioning with long USD and tactical long EUR and GBP aided performance while our underweight credit beta positioning also contributed due to a widening of credit spreads. From a rating perspective, the Fund's underweight allocation to A-rated credits added value.
- There were no single name issuers which materially contributed or detracted from performance while our holdings in five banks continued to be within our top 10 contributors including DB and Standard Chartered.

Outlook / Expectations

- We continue to keep a close watch on the US consumer, which contributes to 70 per cent of US gross domestic product (GDP) and observe that the lowest income quartile consumers have been under pressure for almost 12 months now with increased homelessness and people working more than one job to supplement their income. There are early signs that the middle-income groups are also now showing signs of stress, having drawn down their pandemic-level savings. Consumer confidence is declining quickly, which will impede spending in the near future.

- Other components of US GDP such as business capex is moderating while government fiscal tightening is taking place. Overall, this suggests subdued GDP growth going forward with downside risk depending on the outlook for the labour market. Employment has been held up by two particular sectors: the government e.g. teachers and civil servants working at the state and federal levels, and healthcare.
- Given the growth backdrop, we see good value in US Treasury bonds with preference for the 5-7 year part of the curve. The Fund is modestly long in duration and we expect this to perform well when the US Federal Reserve starts to cut rates. The wild card is political uncertainty with the upcoming US elections.
- We expect some non-US markets to share the same slowdown in economic outlook and see European, German rates and especially UK rates to be cheap relative to fair value.
- In terms of credit positioning, we are of the view that credit is currently generally expensive across the curve. We prefer to stick to high-quality names typically with 5-year maturity. We have long positions in healthcare, banks, which we are overweight in but have been reducing exposure in the non-bank sector. We have concerns in industrials, telecommunications and media and are thus selective in these sectors.
- We view the high yield market to be expensive and have very selective holdings. We have also been diversifying away from the US Treasury market and adding positions in supranational bonds.
- As at 30 June 2024, the Fund's yield to maturity[4] was 4.8%, running yield[5] was 4.6%, duration[3] was 6.7 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 30 June 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 -0.42% and -2.09% 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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