Fidelity INTERNATIONAL

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

Fidelity Funds – US Dollar Bond Fund

30 September 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 September 2024?

- The Fund returned 1.1%[1] (for the A-ACC-USD share class in USD terms) and 0.9%[1] (for the A-MINCOME(G)-SGD (hedged)* share class in SGD terms).

Reasons for performance

- Global investment grade (IG) bond markets posted positive returns in September, driven primarily by a decline in US Treasury (UST) yields across the curve, with US IG outperforming the other major markets.
- The US Federal Reserve (Fed) finally delivered a long-awaited rate cut of 50 basis points with chairman Powell delivering a slightly hawkish statement. Nonetheless, global credit markets took it as a further sign of a soft-landing scenario for the US economy, leading to lower UST yields.
- The UST curve bull-steepened with the 2-10 year portion no longer inverted. From a credit perspective, US and global spreads generally tightened as the narrative on the US economy shifted more towards expectations of a soft landing.
- The Fund delivered positive returns but underperformed its benchmark[2]. Our underweight position in the front end of the curve was a relative detractor as the 2-year UST rallied after the Fed rate cut.
- Our relatively defensive positioning with underweight in credits particularly within cyclical sectors also negatively impacted relative performance as the credit market rallied with US spreads tightening and higher-beta sectors such as media and banks doing very well.
- Conversely, our underweight in US autos benefited performance on the back of negative news flow in the sector with lagging overall auto and electric vehicle sales.
- Our off-benchmark positions in Bunds and Gilts also contributed to performance. We took these small, diversified positions on the view that a slowdown in the US will also affect Europe and the rest of the world. We trimmed some of our Bunds positions to take profits just prior to the European Central Bank meeting.

Outlook / Expectations

- We continue to be cautious on the US economic outlook. US consumers remain weak, trading down in their spending behaviour as inflation hit their purchasing power. The post-pandemic savings have also mostly been eroded and the currently low US savings rate is weighing on consumers. Employment, particularly from small businesses that employ the majority of US workers, is also generally weak and they are very reliant on bank credit.
- 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.
- We remain defensively positioned and are underweight the cyclical high beta sectors as we see risks to growth.
- September was a busy month with a heavy supply of new issues in the US IG market. We evaluated the deals available but did not see value in a lot of them and were very selective, participating only in those that we judged to be attractively priced.
- We participated in a mid-stream energy issuer to reduce some of our underweight in the energy sector. We also participated in new issues of energy companies Total and EDF, and media company Comcast.
- We trimmed our exposures in banks from a slightly long exposure to now slightly underweight on a sector level.
- As at 30 September 2024, the Fund's yield to maturity[4] was 4.0%, 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 30 September 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 7.77% and 5.74% 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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