



The Investment Clock is ticking

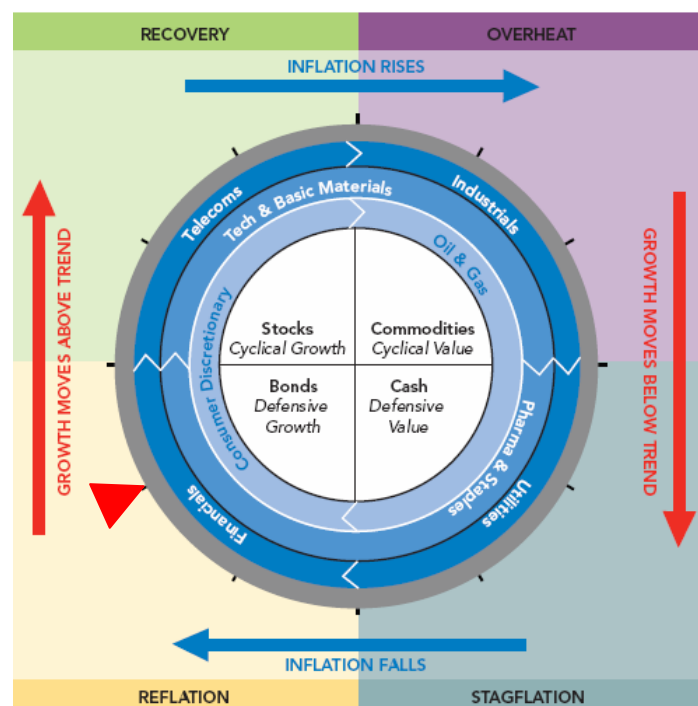
Trevor Greetham – Asset Allocation Director

Trevor Greetham's Investment Clock

Trevor's "Investment Clock" approach links the performance of asset classes and equity sectors to the evolution of the global economic cycle. This is divided into four phases depending on the strength of global growth and the direction of inflation: Reflation, Recovery, Overheat and Stagflation.

Trevor makes use of a leading array of indicators for growth and inflation to judge which phase of the cycle is likely to eventuate over the next 3-6 months. The stage of the cycle will influence the geographic and sector exposure of his funds as bonds, stocks, commodities and cash tend to outperform in turn as the cycle progresses.

The following shows the Investment Clock and provides the characteristics of each of the phases:



Reflation

GDP growth is weak and inflation falls as a result of declining commodity prices and unused capacity. Central banks begin cutting interest rates to stimulate the economy, yield curves shift downwards and become steeper and profits are sluggish.

Recovery

Economic growth gathers momentum on the easing of central bank monetary policy. However, inflation continues to fall as excess productive capacity has not been exhausted, and productivity moves up sharply. Corporate earnings recover but interest rates remain low.

Overheat

Productivity growth eases off, inflation climbs and productive capacity becomes limited. Central banks raise interest rates in an attempt to rein in economic growth to a level that is sustainable, but GDP remains buoyant. Bonds suffer as yield curves flatten and shift higher and stocks may be more volatile.

Stagflation

GDP growth falls below the trend level but inflation continues rising. There is a wage-price spiral as companies boost prices to protect margins. Productivity falls and central banks tend to maintain a tight monetary policy until inflation peaks. Stocks suffer from an earnings squeeze. Bonds are held in check by central bank policy.

Current asset allocation positioning in Trevor's funds

Trevor has reflected a marginal improvement in the industrial picture by adding to commodities and Asia ex Japan equities. He remains very much on the defensive side of things, however. Full recovery still looks remote given continued US housing weakness and the likelihood of much more deleveraging of bank balance sheets.

For further information on which Fidelity funds utilise this approach please contact your usual Fidelity contact or email us at DCInvestmentServices@FIL.com

