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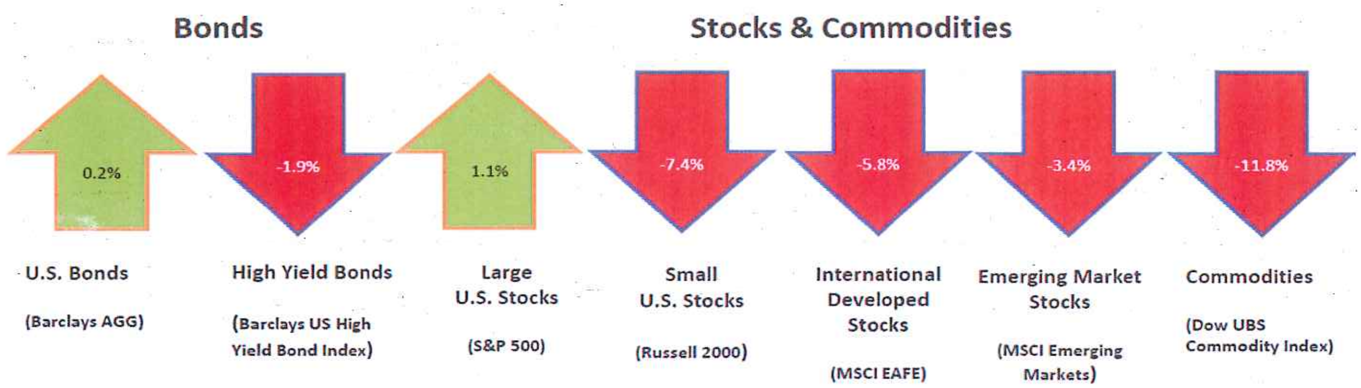
Third Quarter 2014 Economic & Market Summary – October 22, 2014

Global financial markets exhibited greater volatility in Q3 of 2014 as economic uncertainy increased, geo-political tensions mounted and Ebola entered the United States. The U.S. dollar gained strength throughout the quarter as European economic challenges and geo-political issues highlighted the strength of our domestic economy and currency. This was bad news for commodities which led the third quarter declines losing -11.8%. As global economic challenges mounted, investors aimed to reduce risk leading to declines in small cap U.S. stocks, international developed and emerging equities and high yield bonds. The only asset classes to show modest gains were U.S. bonds (up .2%) and large cap U.S. stocks (up 1.1%) – both are considered safe havens.

Third Quarter 2014 Market Barometer

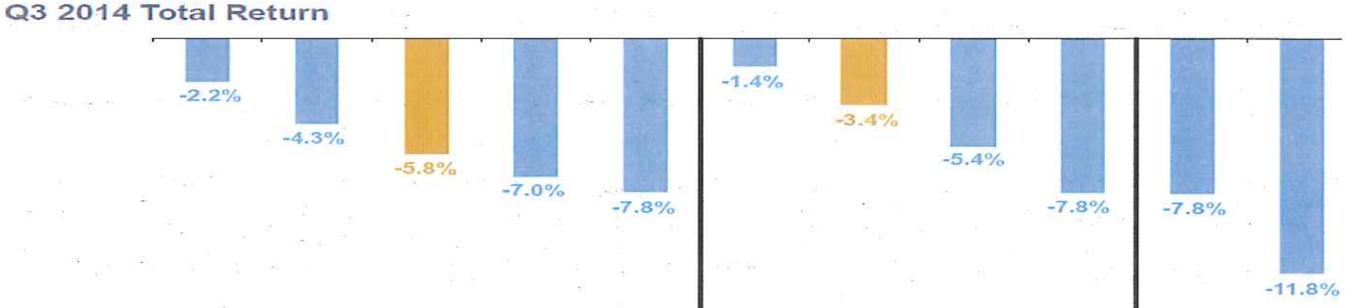


The impact of the strong U.S. dollar on international markets can be seen in the chart below:

Strong Dollar, Weak Conditions Weigh on Non-U.S. Markets

While developed and emerging-market equities eked out slight gains in local currency terms during Q3, the sizeable depreciation in non-U.S. currencies relative to the U.S. dollar caused all major non-U.S. markets to post negative returns in USD terms. Weak global demand caused commodities to suffer their worst quarterly returns since 2008.

Q3 2014 Total Return



	Japan	Canada	EAFE	Europe	EAFE Small Cap	EM Asia	Emerging Markets	Latin America	EMEA	Gold	Commoditie
Q3 2014 LC	5.9%	0.4%	1.0%	-0.2%	-1.2%	0.6%	0.7%	2.3%	-0.5%	N/A	N/A
Year-to-Date	-1.4%	7.2%	-1.0%	-1.4%	-2.5%	5.5%	2.7%	1.6%	-5.2%	0.7%	-5.6%
	Developed-Market Equities					Emerging-Market Equities				Commodities	

Fidelity INVESTMENTS

EM: emerging markets. LC: local currency. All returns are gross in U.S. dollars unless otherwise noted. Past performance is no guarantee of future results. It is not possible to invest directly in an index. All indices are unmanaged. Please see appendix for important index information. Index returns represented by: Canada – MSCI Canada Index; Commodities – Bloomberg Commodity Index; EAFE – MSCI Europe, Australasia, Far East Index; EAFE Small Cap – MSCI EAFE Small Cap Index; EM Asia – MSCI Emerging Markets Asia Index; EMEA (Europe, Middle East, and Africa) – MSCI EM EMEA Index; Emerging Markets (EM) – MSCI EM Index; Europe – MSCI Europe Index; Gold – Gold Bullion Price, LBMA PM Fix; Japan – MSCI Japan Index; Latin America – MSCI EM Latin America Index. Source: Bloomberg Financial L.P., Fidelity Investments (AART), as of 9/30/14.

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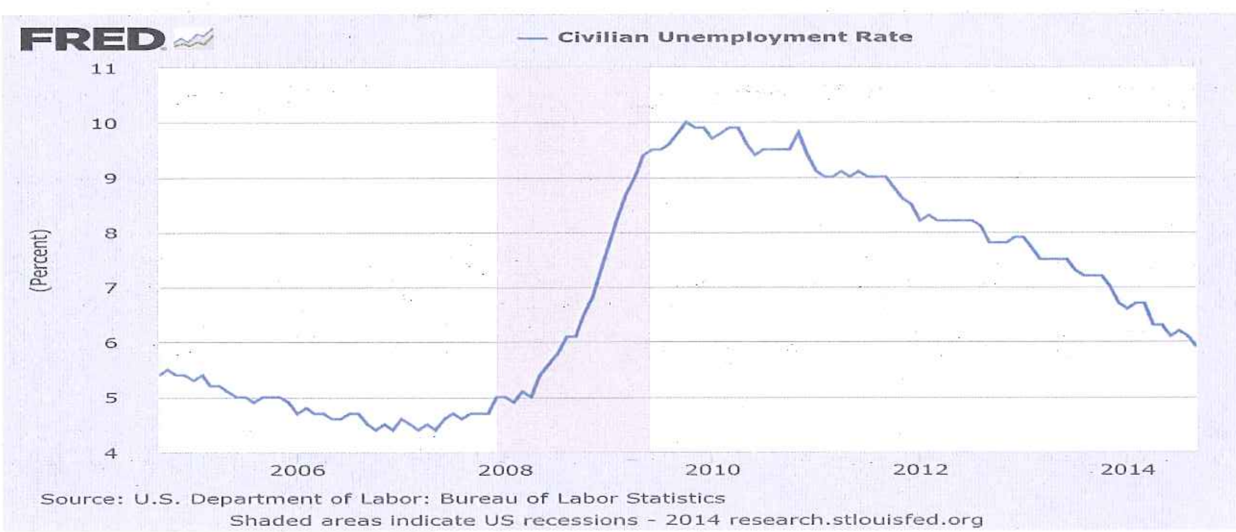
U.S. Economy Remains A Pillar of Strength in an Uncertain Global Environment

The U.S. economy continued to exhibit global leadership. The second quarter economic figures released by the Bureau of Economic Analysis showed that GDP growth advanced at an annualized 4.6% rate in the second quarter of 2014, rebounding sharply from a cold weather induced -2.1% in the first quarter. It was the highest quarterly growth rate in 2 ½ years as shown in the chart below. However, a portion of the improved growth in Q2 represented pent up demand from the first quarter.

In addition to the positive GDP growth, U.S. unemployment levels continued to improve throughout the quarter. In September, nonfarm payrolls increased by 248,000 and the unemployment rate declined to 5.9% according to the Bureau of Labor Statistics. This is the first time since 2008 that the unemployment level was below 6%. As the chart below shows, the U.S. labor market has been steadily improving since 2010.



The Global Economy Is Stuck in Neutral

While the U.S. remains stable with modest growth and gradually improving fundamentals, the rest of the world's fundamentals remain a concern. Recently the International Monetary Fund (IMF) lowered their 2014 global growth forecast to 3.3%, down from 3.8%. The IMF cited worsening geopolitical tensions, low potential growth and stagnation in advanced economies, and a decline in potential growth in emerging market economies. This slow growth around the globe is impeding our domestic economy's ability to grow at a faster pace as the U.S. remains mired in a 2-3% GDP growth environment. Although relatively better than the rest of the world's economies, this is frustratingly slow growth. Further U.S. economic progress may be constrained until the global economies begin to exhibit greater stability and upward momentum.

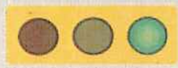
Global Economy Still Struggling to Get on Track

The pace of recovery is disappointing and uneven with global growth projected at a lackluster 3.3% in 2014. In advanced economies, legacies of the boom and subsequent 2008-09 crisis still cast a shadow, while several emerging markets are adjusting to lower medium-term growth.

Risks have increased

- Uneven fragile growth
- Risks from protracted low inflation
- Financial sector excesses
- Simmering geopolitical tensions
- Emerging markets slowing
- Surprises in monetary policy normalization

Ways to stimulate growth and jobs



- Boost infrastructure investment
- Make fiscal policy jobs-friendly
- Reform labor and product markets
- Better regulate financial sector
- Keep interest rates low, as needed
- Reduce private debt

The *World Economic Outlook* (*WEO*) is the IMF's primary survey of the global economy, analyzing economic policy and providing forecasts for global prospects. It is published twice a year, with shorter updates in the quarters in-between.

(Real GDP, percent change)

United States and Japan

Growth in the U.S. has rebounded with jobs picking up; Japan's recovery has slowed

Emerging and Developing Asia

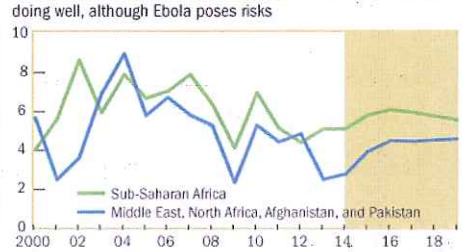
Emerging markets are adjusting to slower growth to different degrees in the region

Euro Area

The euro area shows signs of a slow and fragile recovery, but still faces difficult challenges

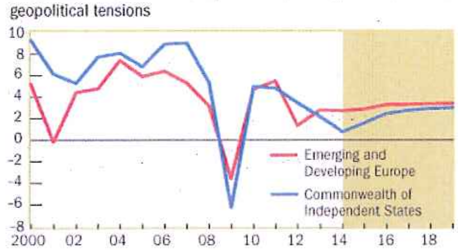
MENAP[2] and Sub-Saharan Africa

Growth in the Middle East has been marked down; Africa is still doing well, although Ebola poses risks



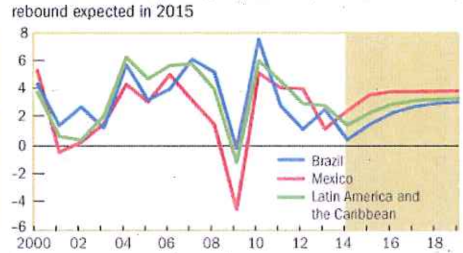
CIS[1] and Emerging and Developing Europe

In Russia and the CIS weaknesses reflect the impact of geopolitical tensions



Latin America and the Caribbean

Growth will slow sharply this year, particularly in Brazil, with a rebound expected in 2015



Source: IMF staff estimates.
[1]CIS = Commonwealth of Independent States
[2]MENAP = Middle East, North Africa, Afghanistan, and Pakistan

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The Federal Reserve Bank & Liquidity

There was significant debate during Q3 about the Federal Reserve's strong liquidity stance. As the economy recovers, the Fed will reduce stimulus. They have already begun to do so by reducing their bond purchases. This program (better known as QE for quantitative easing) is likely be completely phased out by the end of October. If there is a positive side to the slow global economic environment and falling commodity prices, it is that the Fed will likely avoid raising the discount rate (the rate at which they lend to banks) for the foreseeable future. Inflation is not an issue at the current time and weak global economic conditions will deter higher interest rates. As such, it appears that the low interest rate environment that borrowers have enjoyed for the past six years is here to stay for a while.

Outlook

In the short term, the equity markets are likely to remain volatile as the world wrestles with the Ebola virus containment, geopolitical tensions and lethargic economic conditions. Although growth may be challenged, global equity market valuations are not extreme and in some places are very reasonable. The modest correction that the U.S. has already experienced has brought valuations down to more attractive levels. The primary concern for the equity markets is future earnings growth. Corporate earnings have been strong over the last few years as global economies have recovered. However, if global economic growth further stagnates, corporate earnings could slow as we move into 2015. Equity markets do not like slowing earnings and this factor could dampen equity price appreciation and lead to continued volatility. For long term investors, we view weakness as an opportunity to add to positions for long term growth. On the positive side for equities is the fact that world central banks, including the U.S. Federal Reserve Bank, remain in liquidity mode to support economic activity. The fundamental backdrop remains supportive for equities: low inflation, low interest rates, reasonable valuations and solid earnings (albeit growth a bit uncertain).

Our tactical investment strategies, characterized by their ability to move to the safety of money market funds in declining markets, are designed to pick up on asset class volatility and weakness. As a portion of an investors overall portfolio, these models can be very helpful in times of uncertainty as they can reduce risk to the overall portfolio. We expect these strategies to produce a competitive return, especially against traditional bonds. Looking forward, the bond market does not appear overly attractive with historically low interest rates providing limited income for investors so our tactical strategies may be a good substitute for a portion of traditional fixed income allocations as rates eventually rise.

As always, please contact us with any questions or comments.

Sincerely,

David J. D'Amico, CFA
President & Chief Market Strategist