

InPerspective:

INVESTMENT CLOCK UPDATE

OCTOBER 2010



Trevor Greetham joined Fidelity in January 2006 as Asset Allocation Director. In addition to managing funds, Trevor is a member of Fidelity's Asset Allocation Group.

Prior to joining Fidelity, he spent ten years at Merrill Lynch, where he was Director of Asset Allocation. Trevor began his career with UK life insurer Provident Mutual.

He holds an MA in Mathematics from Cambridge University and is a qualified actuary.

Waiting for QE2

The Investment Clock model has moved decisively into the Reflation phase of the cycle. With global growth weakening and inflation falling, earnings are likely to surprise negatively. However, we expect further monetary easing from the world's central banks.

We have restructured our portfolios to move away from assets exposed to the global inventory cycle (commodities, industrials, Japan) and towards assets we see as most likely to benefit from easier policy (bonds, property, consumer stocks).

LEAD INDICATORS IN FOCUS

Inflation

- Headline CPI rates are falling and core CPI rates have been dropping for over a year
- The inflation scorecard also points downwards

Growth

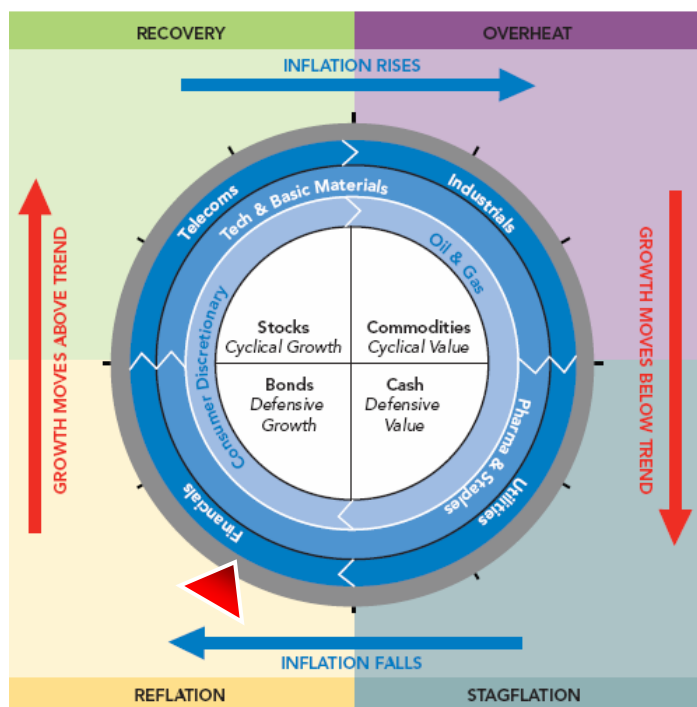
- Global unemployment rates are starting to drift lower, indicating a period of marginally above-trend growth
- However, the Investment Clock growth scorecard moved negative last month for the first time since May 2009 and it continues to deteriorate

CURRENT ASSET ALLOCATION POSITIONING

We remain defensively positioned in the multi-asset funds and sold equities at the margin, taking advantage of a relatively complacent short term sentiment backdrop.

We deployed cash to increase our overweight in government bonds after the recent back up in yields and also increased the overweight in global property, an asset class favoured by our relative momentum model and benefitting from increasing support from the commercial banking system.

Our largest global sector overweight is the interest-rate sensitive consumer sector, where mortgage refinancing could support US retailers. We remain a little wary of financials as the steepening yield curve that can benefit them at this stage of the cycle isn't possible with short rates already close to zero.



| | Underweight | Neutral | Overweight |
|-------------|-------------|---------|------------|
| Equities | | | |
| Property | | | |
| Commodities | | | |
| Bonds | | | |
| Cash | | | |

