Policy uncertainty dominates the fixed income outlook

Fidelity International's outlook from the Fixed Income investment team

For investment professionals only

Executive Summary

July saw markets move beyond a singular focus on inflation toward a more balanced assessment of growth, monetary policy and geopolitical risks. At the same time, recent Federal Reserve communication raised more questions than it answered, leaving investors with greater uncertainty around the policy outlook.

While Chair Warsh reaffirmed his commitment to returning inflation to target, the decision to leave rates unchanged at the July FOMC meeting prompted investors to question how his hawkish rhetoric will translate into policy. With limited forward guidance, markets are likely to remain highly data dependent, increasing the potential for volatility as investors search for greater clarity on the Fed's reaction function.

Following the 29 July FOMC meeting, the US 10-year Treasury yield rose around 15bps into month-end before moderating in early August as the data softened. July non-farm payrolls fell by 23,000, while May and June payrolls were revised down by a combined 103,000. PCE inflation eased to 3.7% year-on-year in June from 4.1% in May, while Brent crude retraced from its July peak of around US$87/bbl to below US$80

As of the time of writing, markets are pricing just one 25bp Fed rate hike through 2027, which may underestimate the risk of more persistent inflation. Elevated energy costs will take time to feed through the economy, while inflation expectations remain above target. Although labour market conditions are softening, they remain robust by historical standards.

The Fed may remain on hold through the US mid-term elections in November, but further tightening later in the year cannot be ruled out if inflation remains elevated. Labour market and inflation data will therefore be critical, while the Jackson Hole symposium should provide further insight into Chair Warsh's policy framework.

Credit markets continue to be fundamentally resilient, although leadership is becoming increasingly idiosyncratic. Investment grade spreads remain close to historical tights, supported by healthy corporate balance sheets and attractive all-in yields. However, broad credit beta offers less compelling value at current valuations, particularly as issuance linked to AI investment and data centre financing continues to build. While supply has been readily absorbed to date, recent weakness across technology, media and telecommunications credits, together with increasing single-name dispersion, suggests investors are becoming more selective.

Positioning therefore continues to favour selectivity over broad market exposure. We remain constructive on high-quality investment grade, where fundamentals continue to justify valuations, while selected BB-rated high yield offers attractive risk-adjusted carry supported by exceptionally low default rates.

We also continue to see value in selected AT1 securities, where robust bank fundamentals, attractive income and limited extension risk provide compelling carry opportunities. Across credit markets, higher government bond yields mean all-in yields remain attractive even where spreads appear historically tight, reinforcing our preference for security selection based on issuer fundamentals rather than broad spread direction.

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Important Information

Reference to specific securities should not be construed as a recommendation to buy or sell these securities and is included for the purposes of illustration only.

Investors should note that the views expressed may no longer be current and may have already been acted upon.

The value of investments and the income from them can go down as well as up so you may get back less than you invest. Past performance is not a reliable indicator of future results.

Bond investments: The price of bonds is influenced by movements in interest rates, changes in the credit rating of bond issuers, and other factors such as inflation and market dynamics. In general, as interest rates rise the price of a bond will fall. The risk of default is based on the issuer's ability to make interest payments and to repay the loan at maturity. Default risk may, therefore, vary between different government issuers as well as between different corporate issuers.

Corporate bonds: Due to the greater possibility of default an investment in a corporate bond is generally less secure than an investment in government bonds.

High yield bonds: Sub-investment grade bonds are considered riskier bonds. They have an increased risk of default which could affect both income and the capital value of the Fund investing in them.

Overseas Markets: Overseas investments will be affected by movements in currency exchange rates. The value of the investment can be affected by changes in currency exchange rates.

Currency Hedging: Currency hedging is used to substantially reduce the risk of losses from unfavourable exchange rate movements on holdings in currencies that differ from the dealing currency. Hedging also has the effect of limiting the potential for currency gains to be made.

Emerging Markets: Investing in emerging markets can be more volatile than other more developed markets.

Derivatives: Some fixed income investments may make use of derivatives and this may result in leverage. In such situations performance may rise or fall more than it would have done otherwise, and expose investors to the risk of financial loss if a counterparty used for derivative instruments subsequently defaults.

Hybrid securities: Hybrid securities typically combine both equity and debt sensitivities and exposures. Hybrid bonds are subordinated instruments that have equity like characteristics. Typically, they include long final maturity (or no limitation on maturity) and have a call schedule increasing reinvestment risk. Their subordination typically lies somewhere between equity and other subordinated debt. As such, as well as typical 'bond' risk factors, hybrid securities also convey such risks as the deferral of interest payments, equity market volatility and illiquidity. Contingent convertible securities ("CoCos") are a form of hybrid debt security that are intended to either convert into equity or have their principal written down upon the occurrence of certain 'triggers' linked to regulatory capital thresholds or where the issuing banking institution's regulatory authorities considers this to be necessary. CoCos will have unique equity conversion or principal write-down features which are tailored to the issuing banking institution and its regulatory requirements.

Strategy summary

The Fixed Income Monthly provides a forward-looking summary of the medium-term views from Fidelity's Fixed Income team. Our investment approach is multi-strategy, with portfolio managers given clear accountability and fiduciary responsibility for all investment decisions in a portfolio. Given this portfolio manager discretion, there may at times be differences between strategies applied and the views presented in this document. We believe in managing portfolios with a mix of active investment strategies, including top-down and bottom-up, such that no single strategy dominates risk.

Macro and unconstrained	– –	–	=	+	++
Overall duration				●	
US duration			●		
Europe duration				●	
Emerging markets duration			●		
Developed Asia duration			→	●	
Inflation				●	
Credit	●				

Main views

- We have moved to long overall duration, as falling oil reduces the case for further hikes and softer data increases the risk of a rates rally, while implementation remains selective across markets.
- Inflation exposure remains front-end focused, with lower energy and food prices helping near-term prints but inflation markets still appearing too relaxed on second-round effects.
- EM/FX risk is selective rather than broad beta, with profits taken in LatAm, Asia risks refined, and exposure retained or added only where valuation and carry support it.

Investment grade credit	– –	–	=	+	++
Investment grade credit beta		●			
USD IG		●			
EUR IG		●			
GBP IG		●			
Asian IG (USD)			●		

- We remain cautious on global IG credit, as supportive technicals and resilient fundamentals are balanced by rich valuations and limited scope for further spread compression.
- We continue to favour higher-quality exposure, focusing on issuers and sectors where compensation remains attractive relative to fundamentals.
- Our defensive positioning provides flexibility to meaningfully increase credit risk during periods of spread widening, enabling us to add exposure at more attractive valuations.

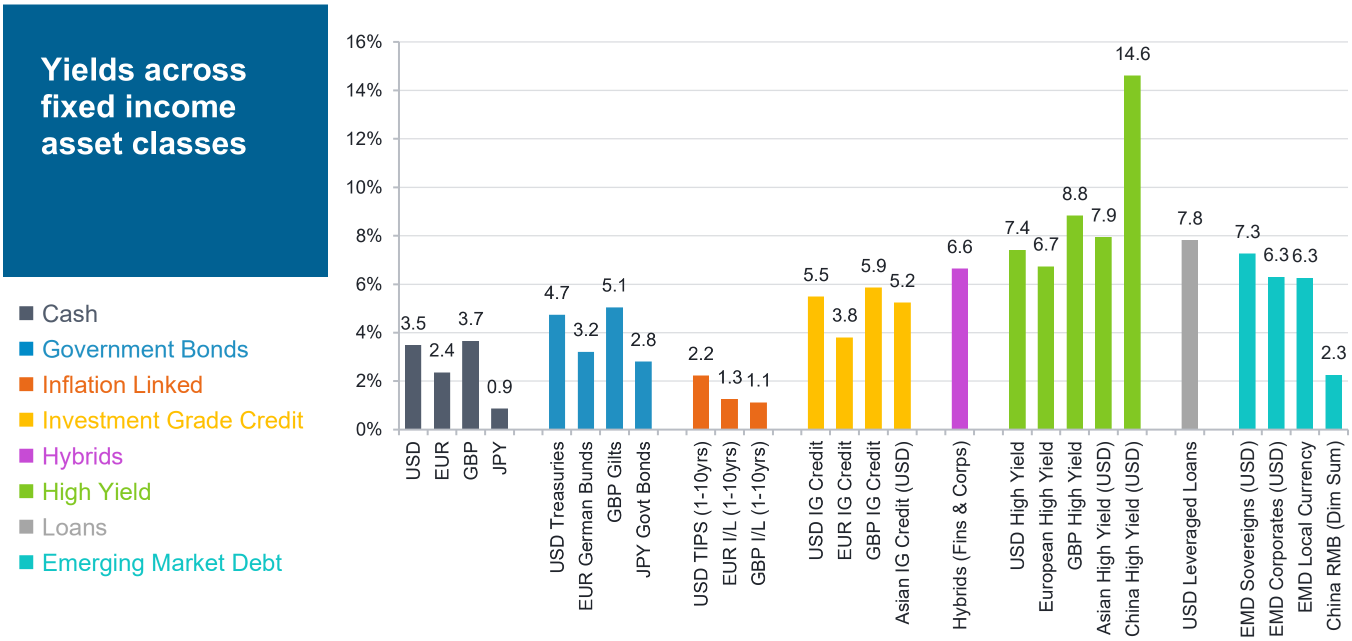
High yield	– –	–	=	+	++
High yield credit beta			●		
US high yield		●	←		
European high yield			●		
Asian high yield			●		

- We maintain a neutral stance on US HY, as yields above 7%, solid earnings and manageable leverage continue to support demand, while tight spreads, rising data-centre issuance and weaker recovery rates argue for selectivity.
- We maintain a neutral stance on European HY, as attractive all-in yields, resilient technicals and steady demand for higher-quality BB-rated bonds are balanced by rich valuations, and evolving AI-related issuance.
- We maintain a neutral stance on Asian HY, where carry remains supportive and fundamentals are stable, but tight spreads, macro headwinds and rising issuer dispersion require disciplined deal selection.

Emerging markets	– –	–	=	+	++
EM hard currency sovereign debt			●		
EM hard currency corporate debt				●	
EM local currency duration			●	←	
EM FX			●	←	
China RMB debt			●		

- Maintain neutral stance in hard currency sovereigns, focusing on selective opportunities rather than broad beta exposure amid uncertainty and richer valuations.
- Remain slightly long in local duration, maintaining targeted exposures while avoiding markets where the balance of risks appears skewed.
- A disciplined, selective stance remains appropriate in the current environment for EMFX.

Yields across fixed income asset classes



Source: Fidelity International, Bloomberg, JPM and ICE BofA Merrill Lynch bond indices, 31 July 2026. Yield to maturity for all instruments except HY and EM (yield to worst), USD loans (yield to 3yrs), and inflation-linked bonds (real yield). Hybrids universe defined as 50% Corporate Hybrids and 50% Financial Hybrids indices.

Summary of returns – 31 July 2026 (%)

Government	1 Month	YTD	2025	2024	2023	2022	2021
US Treasuries	-1.2	-0.8	6.2	0.5	3.9	-12.9	-2.4
EUR Bunds	-1.7	-0.5	-1.5	0.5	5.1	-17.6	-2.6
UK Gilts	-1.7	-1.7	5.0	-4.1	3.7	-25.1	-5.3
Inflation Linked							
USD	-0.8	0.5	6.8	2.0	3.6	-12.6	6.0
EUR	-0.8	2.3	1.1	0.3	5.0	-8.1	6.2
GBP	-1.9	-1.7	1.3	-8.8	0.7	-34.4	3.9
Investment Grade Corporate							
USD	-1.5	-0.6	7.8	2.8	8.4	-15.4	-1.0
EUR	-1.0	0.4	3.0	4.7	8.0	-13.9	-1.0
GBP	-1.3	-0.4	7.1	1.9	9.7	-19.5	-3.0
Asian Dollar	-1.1	-0.5	7.9	3.6	7.5	-11.0	0.0
Financial and Corporate Hybrids							
Contingent Convertibles	-0.1	2.7	10.0	12.2	5.7	-11.4	4.7
Investment Grade Corporate Hybrids	-0.8	0.8	6.7	8.4	10.2	-12.9	1.4
High Yield							
US	-0.3	1.6	8.5	8.2	13.5	-11.2	5.4
European	-0.4	1.6	6.4	8.3	13.1	-13.9	3.3
Asia	0.3	3.7	8.1	16.5	-0.1	-13.3	-6.2
Emerging Markets							
EM USD Sovereigns	-1.4	1.8	14.3	6.5	11.1	-17.8	-1.8
EM USD Corporates	-0.5	1.7	8.7	7.6	9.1	-12.3	0.9
EM Local Currency (USD unhedged)	0.3	1.8	19.3	-2.4	12.7	-11.7	-8.7
China RMB	0.2	4.2	10.8	3.8	4.8	1.9	3.2

Source: Fidelity International, ICE, Bloomberg, 31 July 2026. JPM and ICE BofA bond indices for total returns. ICE BofA Merrill Lynch Q490 Index for Asia high yield.

Macro and unconstrained

Monthly review

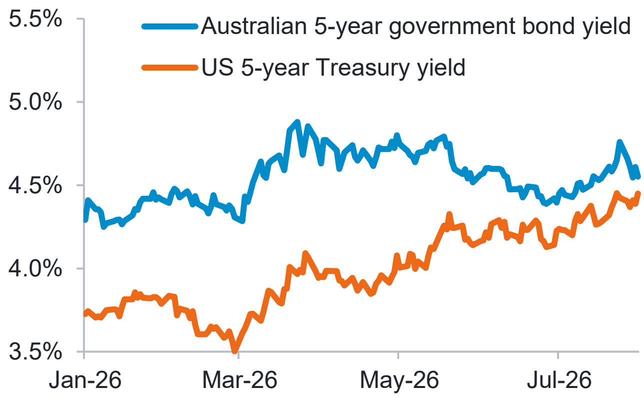
- US inflation surprised sharply to the downside, whilst the Federal Reserve left rates unchanged in July.
- Renewed tensions in the Middle East pushed energy prices higher, while the ECB left interest rates unchanged and markets increasingly priced in a September rate hike.
- Japanese government bonds continued to weaken, which drove longer-term yields higher across the globe, while Japanese authorities intervened to support the yen.

Strategy	– –	–	=	+	++
Overall duration				●	
US duration			●		
Europe duration				●	
Emerging markets duration			●		
Developed Asia duration			→	●	
Inflation				●	
Credit	●				

Outlook

In our view, whilst the backdrop for government bonds has become more supportive, our overweight duration stance remains tactical. A cooling US labour market alongside easing underlying inflation makes a potential hike from the Federal Reserve this year appear unlikely. We therefore added US duration in July and increased our Australian position, which remains a key allocation for us. Our view here is supported by recent Australian macro data, following two consecutive months of downside inflation surprises and a weakening housing market.

Australian and US 5y bond yields remain elevated

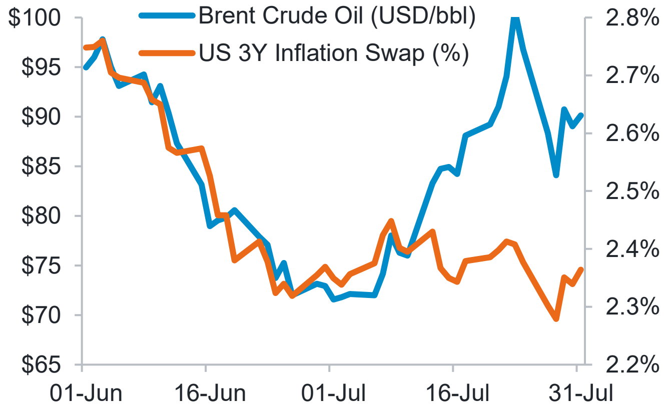


Source: Fidelity International, Bloomberg, 31 July 2026.

The opportunity set across markets is not uniform. We remain long UK government bonds after the recent sell-off and added some Canadian duration. Whilst in European rates we remain underweight given the region's sensitivity to gas prices and the increasing likelihood of a hike by the ECB in September.

Our inflation positioning has also become more measured during the month. For example, we reduced our short-dated US inflation-linked exposure following June's CPI release in July, which came in meaningfully below expectations. In addition to this, upcoming changes to how the core personal consumption expenditures (PCE) index is measured could also lower reported inflation. However, we remain cautious, as the underlying risks to inflation have not disappeared. The recent rise in energy prices only adds to these risks, whilst market-based inflation expectations have remained relatively anchored. Furthermore, we are closely monitoring price moves in memory chips and semiconductors, which may further complicate the underlying inflation pathway going forward.

US inflation expectations remained anchored



Source: Fidelity International, Bloomberg, 31 July 2026.

Within our active currency positioning, we remain focused on expressing our higher-conviction views. During the month, we took profits on our long JPY position, which appreciated materially following the surprise intervention from the Japanese authorities. In our view, further JPY strength would likely require a more hawkish Bank of Japan, and we felt that it was more prudent to express this view through our existing underweight bias in Japanese government bonds.

In credit, we continue to maintain a cautious stance, as valuations remain unattractive and spreads offer limited compensation should growth or investor sentiment weaken. Despite higher energy prices, government bond volatility and heightened geopolitical uncertainty, credit spreads have barely moved from their historically tight levels. A deeper correction in technology and AI-related assets could also weigh on growth expectations and test the resilience of credit markets.

Investment grade credit

Monthly review

- Global IG credit delivered negative returns in July, with spreads slightly wider, but markets remained broadly resilient.
- Technology credit lagged as AI-related issuance, hyperscaler capex and data-centre funding weighed on spreads and curve performance.
- Euro IG spreads were broadly stable, while Sterling IG was weighed down by elevated gilt yields and unresolved fiscal risks.

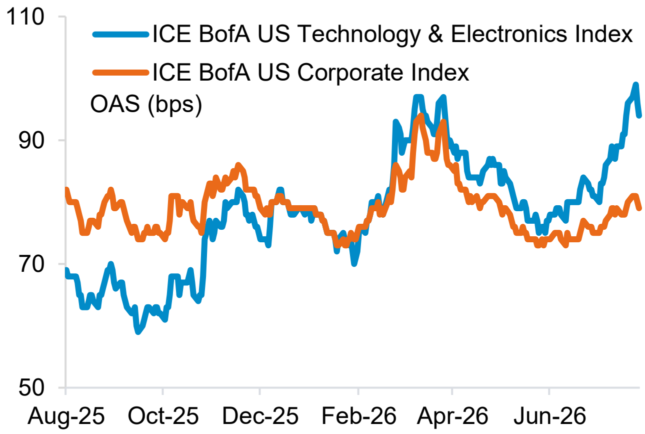
Strategy	– –	–	=	+	++
IG credit beta		●			
USD IG		●			
EUR IG		●			
GBP IG		●			
Asian IG (USD)			●		

Outlook

Global IG credit returned -1.3% in July, with spreads slightly wider. The market remained resilient despite the Middle East conflict and higher energy costs. Headline spread stability masked growing dispersion between technology and rest of the market. Technology-related spreads underperformed as investors assessed the market's capacity to absorb sustained issuance linked to hyperscaler capex, data-centre funding and software balance sheet re-risking. By contrast, spreads elsewhere were little changed, though this divergence appears difficult to sustain.

Overall, we remain cautious on global IG credit with yields continue to support income, but tight valuations and supply pressure favours selectivity. In MBS, spreads widened amid higher rates and elevated Treasury volatility. We hold a small overweight and would add if further weakness improves entry points.

Technology lagged broader US credits

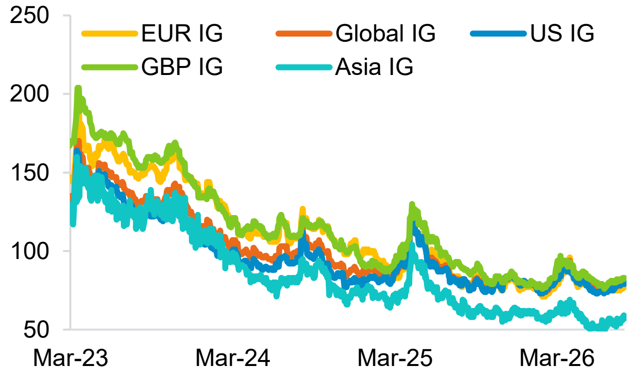


Source: Fidelity International, ICE BofA Indices, 31 July 2026.

US IG credit returned -1.5% in July, with spreads widening by 3bps. Funding pressure is the key theme, particularly in technology and banks. In technology, AI-related financing has driven spreads wider and curves steeper as market's capacity is to absorb supply is assessed. While this is a near-term headwind, issuer balance sheets are generally strong, and the widening has improved relative value in higher-quality tech bonds.

Bank loan growth is outpacing deposit growth and stronger deposit competition could drive further issuance. We remain neutral on US IG, adding selectively where spreads have adjusted, but avoiding broader risk-taking given limited valuation cushion.

Credit spreads are trading near post-conflict tights



Source: Fidelity International, ICE BofA Indices, 31 July 2026.

Euro IG credit returned -1.0% in July, with spreads holding firm despite higher energy prices. The market is resilient but expensive, with current spreads offering limited compensation for energy, supply, and policy risks. Heavy technology issuance is a key watchpoint, as it could draw capital away from lower-rated issuers if concessions widen. Positioning remains cautious, favouring liquid government spreads over broad corporate credit, while front-end, high-quality hyperscaler bonds may offer better relative value where pricing is attractive.

Sterling IG credit returned -1.3% in July, with spreads widening by 2bps as elevated gilt yields weighed on total returns. The market remains supported by steady demand and attractive all-in income, but tight spreads, heavy issuance and unresolved UK fiscal risks limit upside. Against this backdrop, positioning remains defensive and selective, with limited buying beyond attractive new-issue opportunities such as Amazon, as current spreads do not justify broader risk-taking.

Asia IG credit returned -1.1% in July, with spreads only modestly wider and still around the mid-50bps level. Outright yields approaching 5% could attract further income-focused demand. Nevertheless, valuations remain tight, and some markets have begun to show greater differentiation. However, we remain constructive, with a slight long credit beta.

High yield

Monthly review

- High yield delivered mixed returns, with US and European markets declining while Asian HY remained positive.
- US HY declined as a sharp rise in yields and modest spread widening outweighed carry, while corporate fundamentals remained supportive.
- European HY delivered negative returns amid renewed inflation concerns, while performance became more differentiated across issuers.

Strategy	– –	–	=	+	++
HY credit beta			●		
US high yield		●	←		
European high yield			●		
Asian high yield			●		

Outlook

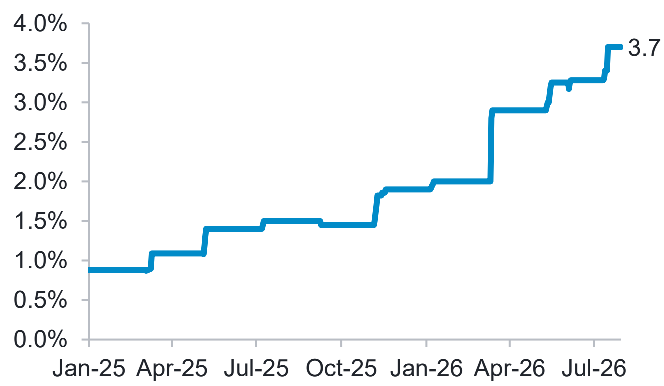
Global HY returned -0.3% in July, while spreads remained broadly stable. US and European HY posted negative returns, while Asian HY remained positive, highlighting regional dispersion. Carry and broadly stable fundamentals continue to support the asset class, although valuations leave limited room for setbacks. With performance increasingly driven by issuer and regional differences, disciplined credit selection remains important. Overall, we remain neutral on global HY, with carry balanced by tight valuations and greater differentiation across markets.

US HY returned -0.3% in July, while spreads widened by 10bps. Spreads widened across the rating spectrum, particularly among BB- and C-rated bonds. Corporate fundamentals remained broadly stable, while fund flows and attractive all-in yields supported demand.

US HY issuance was 20% higher YoY, while AI-related debt now represents around 4% of the index. Investors became more selective, with some AI- and data-centre-related deals requiring larger new-issue premiums. A busier primary calendar in September and the fourth quarter could add supply pressure. AI-related issuance may rise further as capex increases in 2027.

Uncertainty around the US Fed's near-term policy path may also keep treasury yields volatile. We have moved from neutral to a slightly underweight on US HY, as tight spreads and a heavier supply calendar temper the benefits of stable fundamentals and attractive income.

US HY: AI debt gains market share

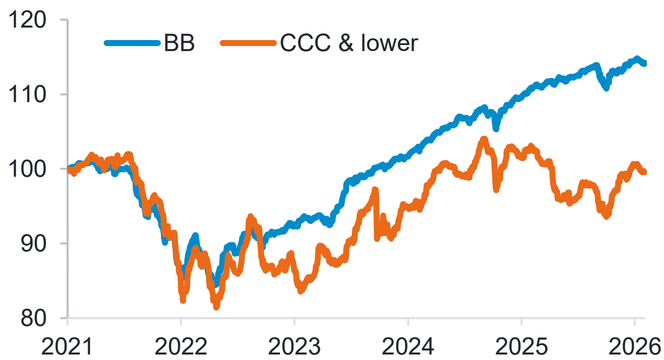


Source: Fidelity International, ICE BofA, Morgan Stanley, 17 July 2026.

European HY returned -0.4% in July, while spreads remained broadly stable. Index-level stability masked rising dispersion and decompression across issuers and sectors, with BB-rated bonds generally holding up better than lower-quality and more event-sensitive areas. Over the past five years, BB-rated European HY has also outperformed CCC-rated debt, highlighting the role of higher-quality bonds in supporting carry and compounding.

Demand and carry remain supportive, but weaker recent performance, uncertain supply and tight valuations leave little room for complacency. Data-centre and refinancing issuance could rise later in 2026, testing current spread levels. Political uncertainty in France also remains a risk, with limited premium reflected in valuations. We remain neutral on European HY, as resilient demand and carry are offset by tight valuations, growing bifurcation and limited compensation for political risk.

EHY: BBs outperform CCCs over five years



Source: Fidelity International, ICE BofA indices, 31 July 2026.

Asian HY returned 0.3% in July, while spreads widened by 12bps. Credit remained relatively stable despite sharp volatility in regional equities, while index yields of around 7.9% kept carry supportive. Performance was largely issuer-specific, and primary issuance included a significant share of lower-quality deals. We remain neutral on Asian HY, as attractive carry and relatively low interest-rate duration are balanced by tight valuations and uneven new-issue quality.

Emerging markets

Monthly review

- EM debt softened in July. Local currency sovereigns were relatively firm, returning 0.3%, while hard currency credit lagged, with corporates down 0.5% and sovereigns the weakest, falling 1.4%.
- Hard currency corporate and sovereign returns were hit by treasury weakness, while carry and a recovery in FX offset rising yields on the local side.
- We retain a cautious stance given tight valuation, engaging selectively with idiosyncratic opportunities in both local and external debt markets.

Strategy	– –	–	=	+	++
HC sovereign			●		
HC corporates				●	
LC duration			●	←	
EM FX			●	←	
China RMB			●		

Outlook

EM debt performance was overall weaker over the past month, though is showing greater divergence. Hard currency sovereigns and corporates had a softer month. On the other hand, local currency sovereigns were firmer in July, owing to stabilising FX and carry which offset rising yields driven by re-escalation of the Middle East conflict.

While higher US treasury yields weighed on hard currency debt, spread widening in sovereigns was modest. Despite the slight widening, overall compressed levels still call for disciplined credit selection. We are also monitoring supply dynamics closely, for example in the Gulf, where war-driven fiscal strain is likely to increase issuance. Equally, we look to US dynamics in terms of financial conditions and IG spreads to determine spillover effects on EM flows.

Sovereign spreads are moving slightly off the tights

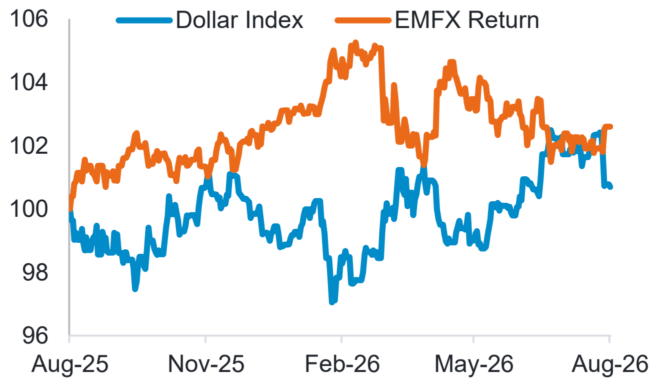
Source: Fidelity International, Bloomberg, 4 Aug 2026.

So far, flows into EM debt have remained supportive despite ongoing geopolitical uncertainty. However, momentum on the local side has slowed (though still positive at +$313m on the month), with favour shifting to hard currency and blended strategies. Primary markets remain resilient and present a potentially interesting pipeline that could see debut deals – for example, from Bangladesh, Tanzania, and a Laotian quasi-sovereign. We continue to carefully analyse primary market opportunities to express relative-value views while minimising transaction costs.

Yields in local rates markets have generally pushed higher in July, but at the index level is slightly below the peak in March. Central bank responses have so far been credible, and many economies have shown a degree of resilience. Our focus is on the persistence of the shock and second-round effects to calibrate our expectations of policy rate trajectories. While we are constructive on local and FX markets in the longer-term, near-term headwinds such as dollar strength warranted tactical adjustments, bringing our outlook on FX and local duration to near neutral.

The divergence in regional dynamics continues to form a core part of our outlook. Latin America is well supported by high real yields and commodity exposure, while parts of Asia and CEEMEA are more vulnerable to energy import costs and inflation pass-through, conditional on the path of oil prices. Regional currency dynamics continue to be shaped by the oil shock, external balances and global risk sentiment.

EM FX firms up as dollar momentum eases



Source: Fidelity International, Bloomberg, 4 Aug 2026.

EM FX is regaining its footing after recent dollar strength, with the currency supported by the hawkish June FOMC meeting. However, the July meeting and rate hold recently offset some of this strength. We are structurally positive on EMFX, though look to remain nimble and diversify funding sources. Our view is supported by the resilience of EM macro frameworks to recent shocks and stronger external buffers than in past cycles.

Quant tactical scorecard

Fidelity Fixed Income quantitative scorecard

31 July 2026

Credit beta and asset allocation

Credit beta	Position	Macro-economics*	Sentiment	Valuation	Seasonality
USD investment grade credit	0.43		0.5	0.1	0.5
EUR investment grade credit	0.31		0.5	0.1	0.0
USD high yield	0.25		0.5	-0.1	-0.5
EUR high yield	0.50		0.5	0.1	1.0
EMD sovereigns (USD)	0.05	1.0	1.0	-0.7	-1.0

Comments: US IG credit is broadly unchanged over July, but there was a reduction in EU IG due to bid-offer spreads and seasonality. HY is unchanged.
*The developed markets do not follow the macro signal in this model

Asset allocation	Position	Macro-economics	Fundamentals	Sentiment and Liquidity	Valuation and Reversion
Investment grade credit	0.15	1.0	1.0	0.4	-0.5
High yield	0.27	1.0	0.3	0.7	-0.3
US loans	0.41	0.3	0.3	0.8	0.1
EM sovereign debt (USD)	-0.04	1.0		0.4	-0.7
EM local currency debt	0.08	1.0		0.1	-0.2
EM corporate debt (USD)	-0.05	1.0	-0.3	0.3	-0.6

Comments: Credit allocation signals moderated in July, consistent with a small easing in IG and HY scores. The transaction cost environment and momentum backdrop both weakened, reducing conviction in risk-on credit positioning.

Interest rates

Duration	Position	Macro	CFTC	Commodity	Cyc Vs Def	Reversion (Return)	Reversion (Yield)	Global Momentum	Slope	Seasonality
EUR	-0.09	-1.00	1.13	-0.94	-0.64	1.00	0.74	-1.60	-0.47	-0.05
USD	-0.05	-0.33	1.13	-0.94	-0.64	2.00	1.05	-1.60	-0.42	0.24
GBP	-0.05	-1.00	1.13	-0.94	-0.64	1.00	0.47	-1.60	-0.27	-0.19

Comments: The directional model moved modestly short across all markets in July. The commodity/risk asset signal (cry_signal) reversed, bond momentum turned negative, and growth-vs-defensive equity signals weakened. EUR macro FAT also deteriorated.

Cross-market duration	Position	Signal	Slope	Real Yield	Fair Value	Growth	Inflation	Unemployment	IIP	Budget Balance
AUD	-0.26	-0.15	-0.46	-0.31	0.27	0.93	0.00	0.23	-0.34	0.02
CAD	-0.09	-0.18	0.14	0.00	-0.23	-0.71	0.13	-0.51	-1.70	-0.17
CHF	-0.24	-0.34	-0.30	-0.28	-1.31	-0.33	-0.33	0.49	-0.74	-0.15
EUR	-0.48	-0.36	-0.48	-0.20	-0.21	-0.01	-0.21	-0.70	-0.27	-0.19
GBP	0.36	0.13	-0.07	-0.02	0.00	-0.06	0.22	0.83	1.09	0.05
JPY	0.27	1.05	1.50	1.22	0.96	-0.34	0.17	0.27	2.25	0.11
NZD	0.06	0.02	0.21	-0.37	0.10	0.19	-0.39	0.32	-1.21	0.41
SEK	0.50	-0.04	-0.02	-0.08	0.32	0.33	-0.21	-0.74	0.54	-0.56
USD	-0.10	-0.13	-0.51	0.03	0.12	-0.01	0.61	-0.18	0.37	0.48

Comments: Cross-market duration positions were broadly stable in July.

Quant tactical scorecard explained

Fidelity Fixed Income quantitative scorecard

Credit beta and asset allocation

Credit beta:
1. Sentiment: technical indicators including trends in credit spreads.
2. Valuation: levels of spreads relative to history, expecting reversion to the mean.
3. Seasonality: indicator driven by historic returns in the corresponding period.

Position	1 Sentiment	2 Valuation	3 Seasonality
0.35	0.5	0.1	-0.7
0.17	0.4	0.1	-1.0
0.01	0.1	0.1	-0.7
0.17	0.2	0.1	0.0
0.17	0.5	0.1	-0.7

Credit asset allocation:
1. Macro: leading indicators including economic survey data.
2. Fundamentals: aggregated trend of single company forecasts for credit fundamentals.
3. Sentiment and liquidity: technical indicators including trends in credit spreads.
4. Valuation and reversion: deviation of spreads from their historic averages including adjustments for potential default losses and credit fundamentals.

Position	1 Macro-economics	2 Fundamentals	3 Sentiment and liquidity	4 Valuation and reversion
0.08	0.8	0.0	0.0	0.0
0.64	-1.6	0.5	1.5	0.5
0.75	-1.1	1.5	1.6	0.0
0.58	-0.9	1.5	1.6	-0.5
-0.34	-1.5	-1.5	-0.7	1.0
-0.07	-1.5	-0.3	-0.1	0.5
-0.09	-1.3	-0.5	-0.1	0.5

Directional duration:
1. Macro future activity tracker: worsening economic outlooks are dovish, lead to lower rates.
2. CFTC: signal tracking the Treasury futures contract holdings of institutional investors.
3. Commodities momentum: a proxy for state of the economic cycle.
4. Cyclical stocks outperformance: a proxy for economic optimism.
5. Reversion (return): deviation of price from their average historic value, expecting reversion to the mean.
6. Reversion (yield): deviation of yield from their average historic value, expecting reversion to the mean.
7. Momentum: measures large moves in a single direction, taking advantage of autocorrelation of flows and returns.
8. Slope of the yield curve: steep curves earn a higher risk premium.
9. Seasonality: technical indicator driven by historic returns in the corresponding period.

1 Global growth	2 CFTC	3 Commodity	4 Cyclical vs defensive	5 Reversion (return)	6 Reversion (yield)	7 Global momentum	8 Slope	9 Seasonality
0.46	1.42	-0.10	0.17	2.00	1.79	-1.84	-0.95	0.51
0.46	1.42	-0.10	0.17	2.00	1.28	-1.84	-0.69	0.14
0.46	1.42	-0.10	0.17	2.00	1.67	-1.84	0.09	0.07

Cross market duration:
1. Slope of the yield curve: steep curves earn a higher risk premium.
2. Real yield: yields adjusted for inflation, tend to revert to the mean.
3. Fair value: forward yields adjusted for GDP trend, tend to revert to the mean.
4. Growth forecast momentum: lower forecasts dovish, lead to lower rates.
5. Inflation forecast momentum: lower forecasts dovish, lead to lower rates.
6. Unemployment forecast momentum: lower forecasts are hawkish, lead to higher rates.
7. International investment position: Higher investment financing requirements need higher yields to compensate.
8. Budget balance forecast: revisions to the budget balance impact the risk premium

1 Slope	2 Real yield	3 Forward yield	4 Growth	5 Inflation	6 Unemployment	7 IIP	8 Budget balance
-0.04	0.23	0.19	-0.15	0.13	-0.07	0.45	0.10
0.12	0.22	0.39	-0.23	-0.30	0.28	1.48	-0.18
-0.51	-0.11	-0.67	0.17	0.33	-0.19	-1.70	0.07
-0.44	0.10	-0.54	0.17	-0.25	-0.58	-0.22	0.38
0.25	0.27	0.46	0.19	-0.08	-0.20	0.49	0.51
0.55	-1.17	-0.21	0.71	0.27	-0.53	0.85	0.27
0.22	0.32	0.31	-0.22	0.27	0.65	-0.20	-0.28
0.01	0.23	-0.41	-0.36	0.26	0.88	-1.54	-0.38
-0.16	-0.09	0.48	-0.28	-0.62	-0.23	0.40	-0.50

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