FIXED INCOME MONTHLY JUN 2026

Inflation persistence revives tightening risks

Fidelity International's outlook from the Fixed Income investment team

For investment professionals only

Fidelity INTERNATIONAL

Executive Summary

May marked a subtle but important shift in market thinking. The question of whether central banks will cut rates is giving way to whether they may need to tighten. Persistent inflation, elevated energy prices and increasingly hawkish central bank rhetoric have challenged the assumption that the next move in rates will be lower.

Growth related data are providing mixed signals. GDP growth is slowing, but not enough to alleviate inflation concerns. US first-quarter growth was revised down to 1.6%, although second-quarter activity is tracking closer to 3% according to the Atlanta Fed. Consumer spending continues to support the economy, but signs of moderation are emerging. A softening labour market trend has seemingly been halted by a bumper May US non-farm payrolls figure and recent upward revisions.

Meanwhile, there is uncertainty about the underlying inflation trend; April PCE inflation rose to 3.8% year-on-year, while Fed Chair Warsh's preferred trimmed-mean measure sits closer to 2.3%. Despite recent upside surprises, markets continue to price very little inflation over the remainder of the year, suggesting a degree of complacency around inflation persistence.

This backdrop is increasingly shaping central bank behaviour. The Fed remains on hold but with a modest hawkish bias, as policymakers focus more on inflation expectations than labour market risks. In Europe, the ECB remains firmly on a tightening path, with two additional hikes expected and risks skewed toward more should inflation remain elevated. By contrast, the Bank of England faces less urgency to tighten given a softer domestic backdrop.

Government bond markets reacted to the changing dynamics. Major bond market yields spiked higher into mid-May but retraced later in the month. The US 10-year Treasury yield finished the month up around 7bps at 4.44%, while German and UK bond yields retrenched even further closing the month down 9bps and 20bps respectively.

Duration remains challenging, warranting a flexible approach. The front end continues to offer the most compelling combination of carry and policy visibility, while the long end remains exposed to fiscal pressures, elevated issuance and rising term premia.

Credit markets, by contrast, continue to demonstrate resilience. Strong demand for income, supportive liquidity conditions and robust new issue demand have kept investment grade spreads near cycle tights despite rising government bond yields. While elevated all-in yields continue to attract capital, tight valuations leave limited scope for further spread compression. As a result, carry remains the dominant source of return.

Positioning remains cautious and selective. Corporate fundamentals are resilient, but spreads provide limited compensation for potential macro deterioration, and a significant pipeline of issuance remains ahead. While the increased use of equity financing for large capital expenditure programmes is supportive for credit quality, substantial debt issuance will still be required to fund data centre buildouts and AI-related investment. Demand has comfortably absorbed supply to date, but the risk of market saturation will rise if issuance accelerates materially. In this environment, maintaining exposure to high-quality credit remains appropriate, but selectivity is increasingly important as valuations remain stretched.

Marion Le Morhedec
Global CIO, Fixed Income

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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 remain long rates, although upside risks to inflation and oil prices make this position less comfortable.
- US duration remains underweight, while we continue to prefer EM local duration following recent weakness. Developed Asia duration remains underweight, with structural risks from fiscal policy and Bank of Japan inertia still weighing on JGB positioning.
- Medium-term inflation expectations appear too subdued, supporting a continued long US inflation bias. FX positioning has become more selective, with the long USD currency position closed and exposure added to LatAm currencies supported by terms-of-trade dynamics.

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

- We remain neutral 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.

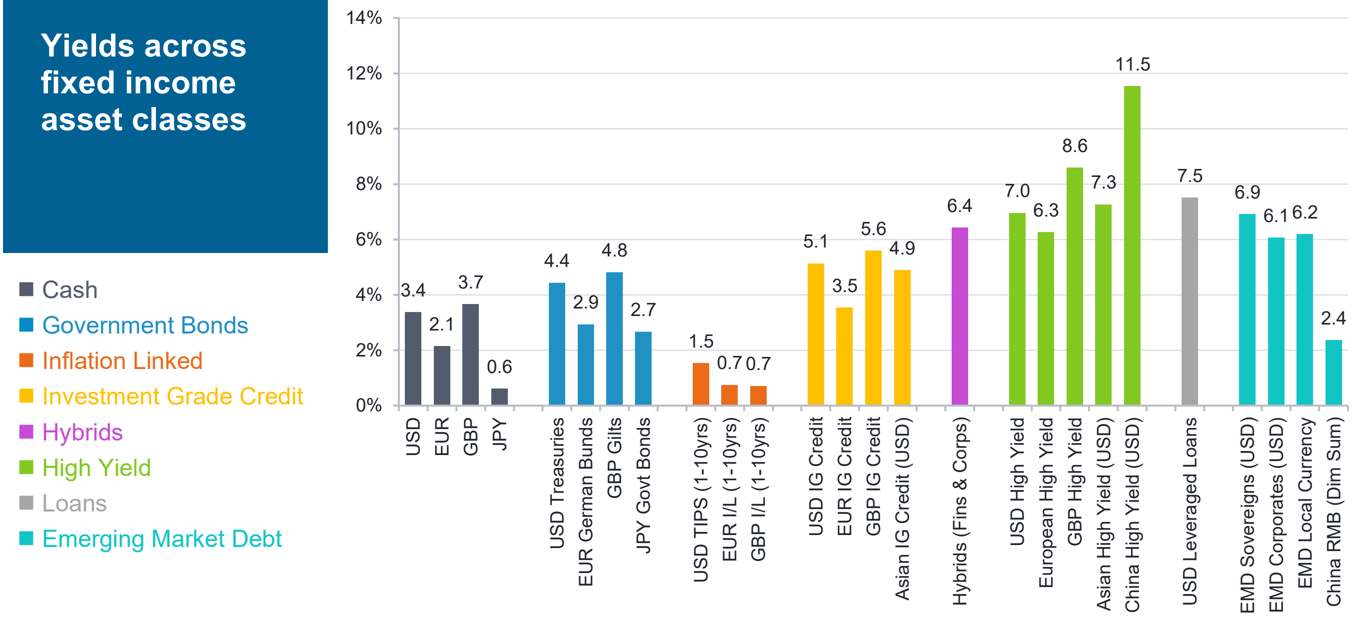
High yield	– –	–	=	+	++
High yield credit beta			●		
US high yield			●		
European high yield			●		
Asian high yield			●		

- We maintain a neutral stance on US HY, as income remains attractive and fundamentals are broadly stable, but tight spreads, elevated AI-related supply and macro uncertainty argue for selective credit allocation.
- We maintain a neutral stance on European HY, as attractive all-in yields and strong technicals are balanced by rich valuations and greater issuer-level differentiation.
- We maintain a neutral stance on Asian HY, where carry remains supportive, but tight spreads, selective demand and idiosyncratic dispersion require continued discipline.

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, 29 May 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 May 2026 (%)

Government	1 Month	YTD	2025	2024	2023	2022	2021
US Treasuries	0.1	0.1	6.2	0.5	3.9	-12.9	-2.4
EUR Bunds	0.8	0.6	-1.5	0.5	5.1	-17.6	-2.6
UK Gilts	2.0	-0.6	5.0	-4.1	3.7	-25.1	-5.3
Inflation Linked							
USD	0.3	1.8	6.8	2.0	3.6	-12.6	6.0
EUR	0.7	3.3	1.1	0.3	5.0	-8.1	6.2
GBP	1.3	1.0	1.3	-8.8	0.7	-34.4	3.9
Investment Grade Corporate							
USD	0.7	0.8	7.8	2.8	8.4	-15.4	-1.0
EUR	0.9	0.9	3.0	4.7	8.0	-13.9	-1.0
GBP	2.0	0.3	7.1	1.9	9.7	-19.5	-3.0
Asian Dollar	0.3	0.6	7.9	3.6	7.5	-11.0	0.0
Financial and Corporate Hybrids							
Contingent Convertibles	0.7	2.0	10.0	12.2	5.7	-11.4	4.7
Investment Grade Corporate Hybrids	0.9	1.1	6.7	8.4	10.2	-12.9	1.4
High Yield							
US	0.5	1.6	8.5	8.2	13.5	-11.2	5.4
European	0.8	1.4	6.4	8.3	13.1	-13.9	3.3
Asia	0.8	3.4	8.1	16.5	-0.1	-13.3	-6.2
Emerging Markets*							
EM USD Sovereigns	1.0	2.6	14.3	6.5	11.1	-17.8	-1.8
EM USD Corporates	0.4	1.8	8.7	7.6	9.1	-12.3	0.9
EM Local Currency (USD unhedged)	0.9	1.3	19.3	-2.4	12.7	-11.7	-8.7
China RMB	1.1	3.0	10.8	3.8	4.8	1.9	3.2

Source: Fidelity International, ICE, Bloomberg, 31 May 2026. JPM and ICE BofA bond indices for total returns. ICE BofA Merrill Lynch Q490 Index for Asia high yield. *Emerging markets returns are calculated from 30 April 2026 to 29 May 2026 (1 Month) and from 31 Dec 2025 to 29 May 2026 (YTD).

Macro and unconstrained

Monthly review

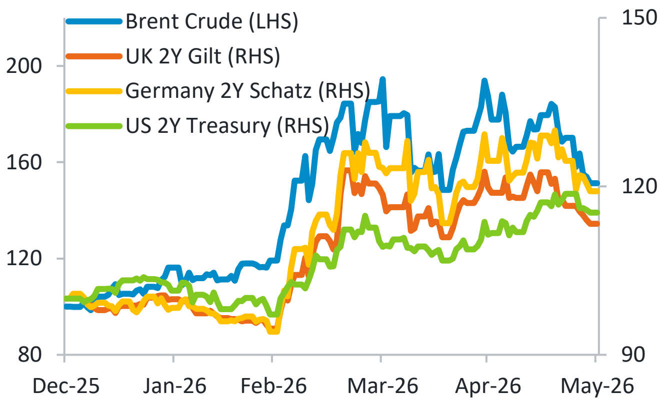
- Oil, inflation and rates drove markets in May. UK and Euro rates broadly followed oil, while US rates also reflected strong data and hawkish Fed commentary.
- Duration was added in UK rates and selected EM local markets after recent weakness, while US duration remained underweight. UK rates exposure was later trimmed after outperformance.
- Inflation exposure was reduced after a strong rally, but the portfolio retained a long US inflation bias. The long USD currency position was closed, with exposure added to selected LatAm currencies supported by commodity dynamics.

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

Outlook

May markets continued to be shaped by the interaction between oil, inflation and rates. The key issue was not simply that oil moved, but that markets responded differently year to date. UK and Euro rates broadly followed oil, reinforcing the role of energy prices as a key driver of rates markets, while US rates also reflected strong domestic data and hawkish Fed commentary.

UK and Euro rates have tracked oil more closely than US rates

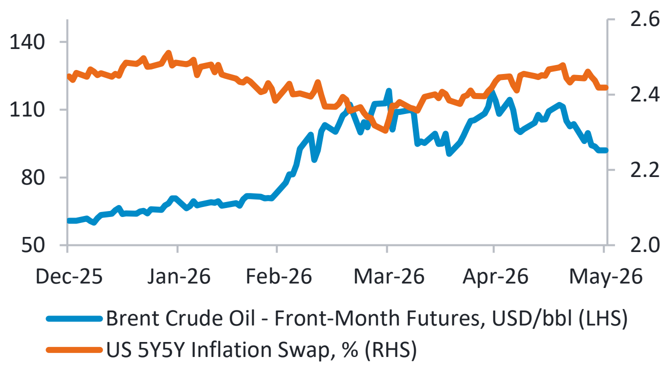


Source: Fidelity International, Bloomberg, 31 May 2026. Indexed Chart - YTD moves rebased to 100 on 31 December 2025.

The oil and rates relationship remains central to portfolio positioning. Duration was added after recent weakness, including UK rates and selected EM local markets, while US duration remained underweight. UK rate duration was subsequently trimmed after outperformance, reflecting a more tactical approach to rates exposure. Overall, we remain long rates, but upside risks to inflation and oil prices make this position less comfortable.

In inflation markets, medium-term inflation expectations appear too subdued. US CPI exposure was trimmed after a strong rally and a period of favourable carry, with profit-taking focused on longer-dated inflation tenors as valuations moved back to elevated levels. However, the portfolio retains a long US inflation bias, as inflation pricing still appears too low relative to the risks from oil, strong US data and hawkish Fed commentary.

US inflation protection looks cheap given oil-driven risks



Source: Fidelity International, Bloomberg, 31 May 2026.

Currency markets have reflected the move higher in US rates. US dollar strength has been supported by higher US rates and has pressured emerging market assets. However, portfolio FX positioning has become more selective: the long USD position was closed, while exposure was added to LatAm currencies, including CLP, COP and PEN, where terms-of-trade dynamics and relative commodity moves remain supportive.

In emerging markets, the focus remains on selective opportunities rather than broad beta exposure. EM local rates exposure was increased after recent weakness, including Brazil, Colombia and Philippines local duration. At the same time, the stronger dollar and higher US rates remain important risks for EM assets, requiring a more targeted approach.

Investment grade credit

Monthly review

- Global IG credit delivered positive returns in May, with spreads tightening despite a challenging market backdrop.
- US IG credit spreads tightened as primary markets remained open, although aggressive new issue pricing reinforced the need for selectivity.
- Sterling IG credit was the strongest regional performer, supported by carry, higher all-in yields and continued investor rotation out of money markets.

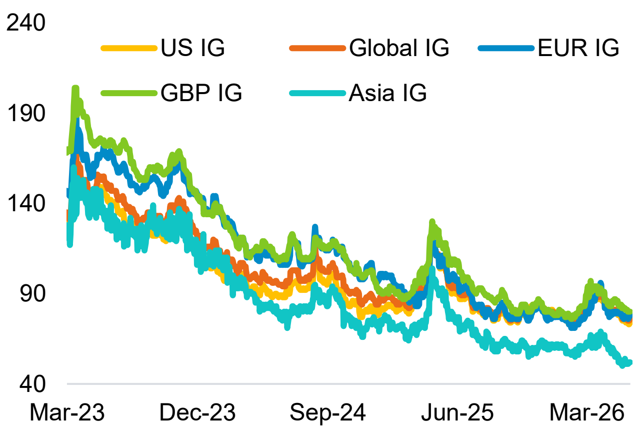
Strategy	– –	–	=	+	++
IG credit beta		●			
USD IG		●			
EUR IG		●			
GBP IG		●			
Asian IG (USD)			●		

Outlook

Global IG credit returned 0.8% in May, with spreads tightening despite a challenging sovereign backdrop. Strong inflows into IG funds and ETFs supported spread performance, while corporate fundamentals remained broadly resilient. However, spreads are close to historical tights, leaving limited scope for further compression.

New issuance has been well absorbed, although aggressive primary pricing points to investors accepting lower compensation for risk. Supportive technicals and healthy fundamentals continue to underpin the asset class, but rich valuations call for a disciplined and selective approach. We remain neutral on global IG credit, favouring higher-quality exposure and opportunities where spreads have widened beyond fundamentals, such as parts of mortgages.

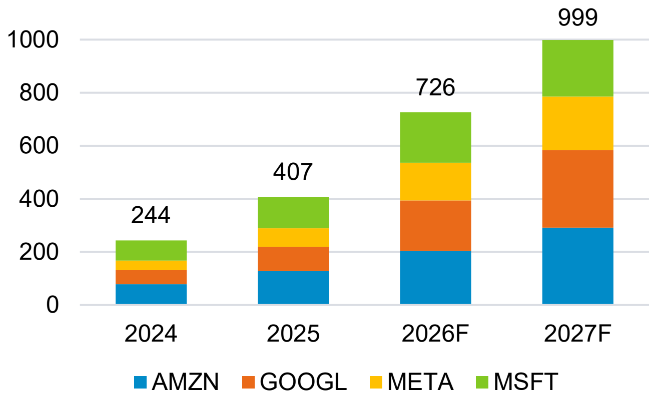
Credit spreads have retraced to pre-conflict tights



Source: Fidelity International, Bloomberg, May 2026.

US IG credit returned 0.7% in May, with spreads tightening by 7bps. Primary markets remain open, with Business Development Companies and Funding Agreement-Backed Notes (Insurance) returning after the earlier pause linked to private credit concerns. Hyperscaler supply continues to expand globally, with broader "tap every market" issuance and greater use of structured formats reducing transparency. Tight spreads and aggressive new issue pricing leave limited compensation for risks from weaker growth outside AI-driven sectors, pressure in consumer-facing industries and softness in healthcare. Spreads therefore appear more likely to widen from current levels, supporting a selective stance.

Hyperscaler capex, consensus estimates ($bn)



Source: Fidelity International, JP Morgan, May 2026.

Euro IG credit returned 0.9% in May, with spreads tightening by 2bps, supported by strong technicals. However, valuations remain stretched and offer limited scope for further tightening. Positioning remains cautious in credit, with government spreads preferred over credit spreads as resilient growth and economic data reduce the risk of significant fiscal deterioration. We remain neutral on European IG credit and maintain a selective, defensive approach to corporate credit.

Sterling IG credit returned 2.0% in May, with spreads tightening by 6bps, supported by carry. Credit spreads as a share of yield are at their tightest since January 2000, suggesting limited compensation for credit risk. Higher all-in yields continue to support demand, with issuance generally well absorbed and inflows aided by rotation out of money markets. Positioning remains neutral to slightly long credit beta, with emphasis on rotating into laggards, trimming outperformers and upgrading quality rather than adding broad risk.

Asia IG credit returned 0.3% in May, with spreads tightening by 5bps. Positioning remains constructive but selective, with a marginally long credit-risk stance. Technical demand continues to dominate the market narrative, while the muted reaction to geopolitical developments, including the Trump-Xi summit, suggests some complacency. The focus remains on participating in supportive carry conditions while recognising that current spread levels leave less room for error.

High yield

Monthly review

- High yield delivered positive returns, supported by resilient demand and easing inflation concerns.
- US HY also delivered positive returns but lagged European HY, as higher yields weighed while AI-related supply became more prominent.
- European HY posted strong returns, supported by solid technicals and spread tightening across lower-rated bonds.

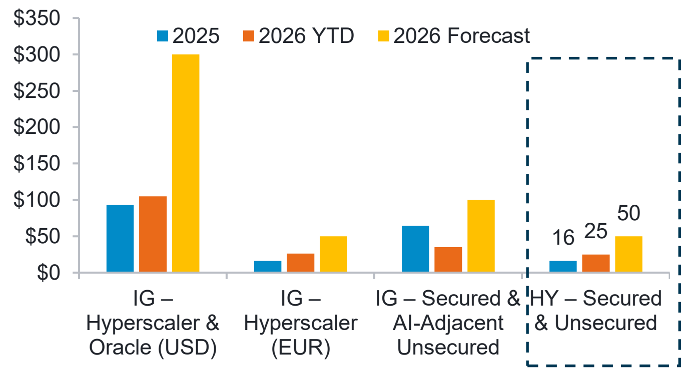
Strategy	– –	–	=	+	++
HY credit beta			●		
US high yield			●		
European high yield			●		
Asian high yield			●		

Outlook

Global HY returned 0.6% in May as spreads tightened by 9bps, moving back towards recent tights, driven by firmer risk appetite, solid earnings and strong technicals. Beneath the headline performance, dispersion is increasing across regions, sectors and ratings. Fundamentals remain broadly stable, and default expectations contained, but current spread levels offer limited cushion if earnings weaken or rates volatility increases. Overall, we remain neutral as carry remains supportive, but tight spreads, and rising dispersion argue for continued selectivity.

US HY returned 0.5% in May, while spreads tightened by 9bps and yields remained near 7%. Primary activity remains an important regional theme, with issuance increasingly driven by hyperscalers, technology-related financing and M&A activity. AI-related capital spending is reshaping the supply mix, as full-year issuance estimates have been revised higher to around $50bn. Many data-centre deals benefit from guarantees or hard assets, which has supported execution and lowered investors perception of deal risk.

US HY: AI-related issuance is driving credit supply



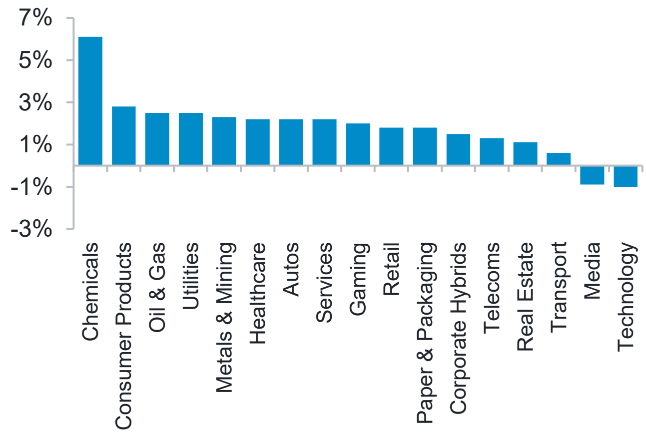
Source: Fidelity International, Morgan Stanley Research estimates, 30 May 2026.

Demand has absorbed heightened supply so far, helped by stable earnings, manageable leverage and limited CCC-rated issuance. However, the scale and concentration of AI-related supply requires monitoring, particularly if future issuance moves lower in quality. We are neutral US HY as income is attractive and fundamentals broadly stable, but tight spreads and rising sector-specific supply argue against adding broad market risk.

European HY returned 0.8% in May as spreads tightened by 4bps, supported by strong demand and limited supply. Primary activity focused on higher-yielding new issues, with demand extending into higher-beta segments and smaller credits despite limited new issue premium. Strong equity sentiment also supported the asset class, even as spreads tightened without a clear improvement in fundamentals.

There has been sector return dispersion in recent months, with chemicals, consumer products and oil & gas outperforming since early November 2025, while media and technology lagged. More recently, differentiation within higher beta is clear: autos, specialty finance and distressed energy continue to trade at wider levels, while AT1s are no longer consistently the highest-yielding segment. We are neutral European HY as attractive all-in yields and firm technicals are balanced by rich valuations and greater issuer-level differentiation.

EHY: Dispersion in returns across sectors



Source: Fidelity International, JP Morgan, S&P Global. 29 May 2026. Returns since 4 November 2025.

Asian HY returned 0.8% in May as spreads tightened by 30bps, supported by demand for all-in yield. Performance remains idiosyncratic; shorter-dated BB bonds in Indonesia and China were well supported, while longer-dated and lower-rated credits were mixed. Investors are increasingly selective, with less appetite for weaker pricing or fundamentals. We remain neutral Asian HY as carry is supportive, but tight spreads and wider dispersion require discipline.

Emerging markets

Monthly review

- EM debt posted positive but more muted returns in May after the prior month's rebound, with local currency sovereigns +0.85%, hard currency sovereigns +1% and corporates weaker at +0.38%.
- Hard currency corporate and sovereign returns were underpinned by spread carry, while we saw the treasury return component mostly flat
- Local markets priced out geopolitical risk, though inflation premia are embedded to varying degrees.

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

Outlook

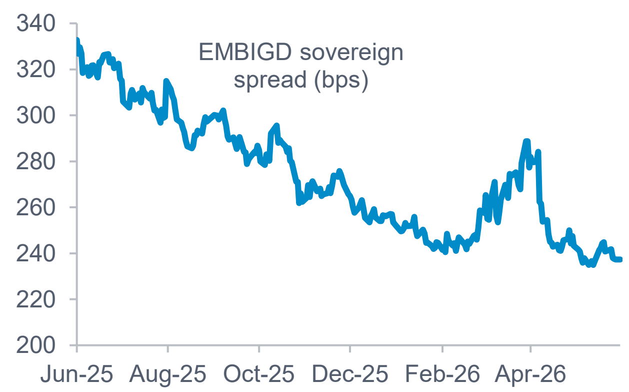
Emerging market debt posted positive but more muted returns in May after the rebound in the prior month, with local currency sovereigns +0.85%, hard currency sovereigns +1% and corporates at +0.38%. This leaves hard currency sovereigns in the lead year-to-date, with returns of 2.58%. Local markets have returned 1.3%, as carry has helped to cushion capital losses as a result of inflation premia repricing since the start of the Iran war.

Investor sentiment remained firm despite geopolitical conditions remaining uncertain and disruptive. This was reflected in modest inflows into hard and local currency funds as risk appetite stayed relatively constructive

Hard currency sovereign spreads were marginally tighter the market consolidates after tightening around 40bps during the April rebound. Nonetheless, the initial scale of widening earlier in the year was still relatively limited and emphasised the resilience of the asset class given structural tailwinds and stronger fundamentals.

The primary market remained active in May, with around $60bn of supply, led by CEEMEA ($34bn) and marginally lower than the $66bn total seen last month. Carry remains an important buffer, but stretched valuations argue for selectivity centred on relative value and new issue opportunities. The risk-reward profile is broadly even, consistent with a slightly positive stance.

Sovereign spreads are firmly back to the tights



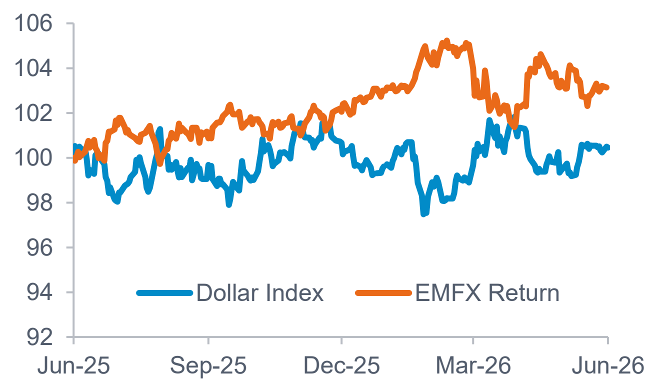
Source: Fidelity International, Bloomberg, June 2026.

Local rates are stabilising after the recent selloff, which had been driven by higher oil prices and a sharp reassessment of policy expectations. Central bank responses have so far been credible, but the persistence of the shock and the risk of second-round effects will determine the extent of further tightening required.

Regional dynamics are diverging. Latin America is relatively supported by high real yields and commodity exposure, while parts of Asia and CEEMEA are vulnerable to energy import costs and inflation pass-through. The path of oil prices and global financial conditions is critical. A softer US dollar is a potential medium-term tailwind, but near-term uncertainty around inflation and growth warrants vigilance. These factors support a cautiously positive outlook.

EM FX has regained ground after the bout of USD strength driven by geopolitical uncertainty. Currency dynamics continue to be shaped by the oil shock, external balances, global risk sentiment, and idiosyncratic developments such as in Hungary. Structural drivers are supportive over the medium term. The USD may return to its prior weakening path, and EM macro frameworks have proven resilient in recent shocks. Commodity exporters benefit from improved terms of trade, while external buffers across many EM economies are stronger than in past cycles.

EM FX is stabilising after the bout of dollar strength



Source: Fidelity International, Bloomberg, June 2026.

That said, near-term risks are elevated, particularly for economies with current account vulnerabilities or high energy dependence. Selectivity is key, with relative value opportunities over broad directional exposure.

Quant tactical scorecard

Fidelity Fixed Income quantitative scorecard

30 May 2026

Credit beta and asset allocation

Credit beta	Position	Macro-economics*	Sentiment	Valuation	Seasonality
USD investment grade credit	0.29		0.9	0.0	-1.0
EUR investment grade credit	0.41		0.9	0.1	-0.5
USD high yield	0.23		0.9	-0.2	-1.0
EUR high yield	0.50		0.9	0.1	-0.5
EMD sovereigns (USD)	0.03	-1.0	0.8	-0.4	0.5

Comments: All five credit models hold long positions, with EUR HY and EUR IG most strongly expressed and EM sovereign credit near flat; the most notable move during May was a sharp reversal in EM sovereign from short to near flat, driven by dispersion and seasonality signals turning positive.
*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	0.23	-0.3	1.0	0.9	-0.5
High yield	0.31	-0.3	1.0	0.9	-0.3
US loans	0.61	1.0	1.0	0.9	0.1
EM sovereign debt (USD)	0.01	-0.3		0.8	-0.7
EM local currency debt	0.22	-0.3		0.8	-0.2
EM corporate debt (USD)	0.16	-0.3	1.0	0.8	-0.6

Comments: he model holds a broadly constructive view on credit, with positive overall scores across investment grade and high yield categories, while emerging market allocations are near neutral.

Interest rates

Duration	Position	Macro	CFTC	Commodity	Cyc Vs Def	Reversion (Return)	Reversion (Yield)	Global Momentum	Slope	Seasonality
EUR	-0.06	1.00	0.41	0.47	-1.10	0.00	0.43	-1.07	-0.54	-0.95
USD	-0.05	-1.00	0.41	0.47	-1.10	2.00	0.78	-1.07	-1.07	-0.35
GBP	-0.02	0.33	0.41	0.47	-1.10	1.00	0.52	-1.07	-0.50	-0.30

Comments: The model maintains short duration positions across EUR, USD, and GBP, with EUR holding the largest short and GBP the smallest; the US short was modestly trimmed through May as mean reversion strengthened and commodity signals turned positive.

Cross-market duration	Position	Signal	Slope	Real Yield	Fair Value	Growth	Inflation	Unemployment	IIP	Budget Balance
AUD	-0.26	-0.25	-0.64	-0.58	0.25	0.55	-0.45	0.01	0.87	-0.03
CAD	-0.09	-0.26	-0.03	-0.19	-0.42	-0.37	-0.18	-0.51	-1.18	-0.35
CHF	-0.24	-0.24	-0.19	0.13	-1.11	-0.04	-0.21	0.51	-1.09	-0.12
EUR	-0.48	-0.37	-0.43	-0.30	-0.36	-0.02	-0.19	-0.88	-0.30	-0.23
GBP	0.36	0.16	-0.12	0.02	-0.01	0.21	0.29	0.95	1.27	0.01
JPY	0.27	1.28	1.75	1.53	1.58	-0.31	0.65	0.06	2.21	0.40
NZD	0.06	-0.07	0.13	-0.64	-0.21	-0.10	-0.51	0.19	-0.81	0.41
SEK	0.50	-0.10	-0.02	0.11	0.18	0.23	-0.03	-0.26	-0.83	-0.60
USD	-0.10	-0.14	-0.44	-0.06	0.11	-0.15	0.64	-0.06	-0.14	0.51

Comments: The model is long SEK, GBP, and JPY rates while short EUR, AUD, CHF, and CAD, with the USD position covered from a larger short to near flat. The most significant moves during May was a reduction of the USD short driven by an improvement in net investment position and relative value signals, and an addition to the EUR short as net investment position and carry signals deteriorated. The model also reduced the long in NZD and went underweight Canada.

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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