The bond sell-off is changing character

Fidelity International's outlook from the Fixed Income investment team

For investment professionals only

Fidelity INTERNATIONAL

Executive Summary

August was another difficult month for global bond markets, but the more important development is how the sell-off is changing. What began as a repricing of central bank policy has broadened into a reassessment of inflation, fiscal risk and the compensation required to absorb growing supplies of duration. The US 10-year Treasury yield briefly reached around 4.82%, while long-dated yields also rose sharply across the UK, Europe and Japan.

Through much of August, markets were focused on the Fed's reaction function and the prospect of further tightening. More recently, longer-dated yields have joined the sell-off as higher oil prices renewed inflation concerns alongside large fiscal deficits and elevated sovereign and corporate issuance. The question is therefore becoming less about the next policy move and more about the yield required to attract sufficient private-sector demand for an expanding supply of long-duration debt.

This matters because policy expectations can reverse quickly if growth deteriorates, while a higher term premium driven by inflation uncertainty, fiscal risk and supply could prove more persistent. The lack of a traditional safe-haven response to renewed geopolitical tensions reinforces this shift: markets have treated the latest Middle East escalation primarily as an inflation and supply shock, raising the risk that central banks ultimately face weaker growth alongside stubborn inflation.

There are limits, however, to how far yields can rise without economic consequences. Softer US employment data have already generated periodic bond rallies, while higher borrowing costs and tighter financial conditions should increasingly weigh on activity. Duration therefore remains tactically challenging but is becoming more interesting as a contrarian opportunity. The further yields rise without a corresponding improvement in the medium-term growth outlook, the more attractive the eventual risk-reward becomes. We favour retaining flexibility to add duration if labour markets weaken more decisively, energy prices stabilise or monetary tightening begins to bite.

At the same time, higher yields are strengthening the strategic case for fixed income. More income provides a greater cushion against volatility and reduces reliance on spread compression or capital gains. This should support fixed maturity and buy-and-maintain strategies and could draw some of the substantial cash still sitting on the sidelines back into bonds.

Credit resilience provides an important signal. Investment grade issuance remained exceptionally strong in August, while high yield spreads tightened despite the sovereign sell-off. Corporate fundamentals are therefore not yet signalling a broader credit event; for now, this remains primarily a rates shock. Tight spreads nevertheless leave limited room for error, reinforcing our preference for higher-quality issuers and selective exposure over broad credit beta.

The key risk is whether higher government yields eventually pull credit spreads wider as well, creating a more powerful tightening in financial conditions. Until then, the paradox is that the sell-off is making fixed income harder to own tactically but increasingly attractive strategically: carry is improving, credit fundamentals remain resilient, and duration is rebuilding its potential to provide both capital upside and portfolio diversification.

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 duration overall, however we have reduced our active risk as the Middle East conflict persists and longer-dated sovereign bonds continue to come under renewed pressure.
- Our inflation exposure remains focused on medium-term US inflation, primarily through 2-year and 3-year CPI swaps. Recent inflation prints have been well behaved, however we remain cautious that markets may be underestimating the risk of renewed pressures from food and energy prices.
- EM/FX positioning remains selective rather than broad beta. We continue to prefer EM local currency bonds over developed-market corporate credit.

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

- We remain cautious on broad global IG credit, as tight valuations and heavy issuance leave limited protection against renewed volatility despite generally resilient fundamentals.
- We continue to favour selective, higher-quality opportunities, particularly where new issuance offers attractive concessions or where shorter maturities provide greater visibility on repayment.
- Positioning remains defensive overall, preserving flexibility to add risk during periods of spread widening, while maintaining a more constructive stance on Asia IG given resilient technicals and healthy investor demand.

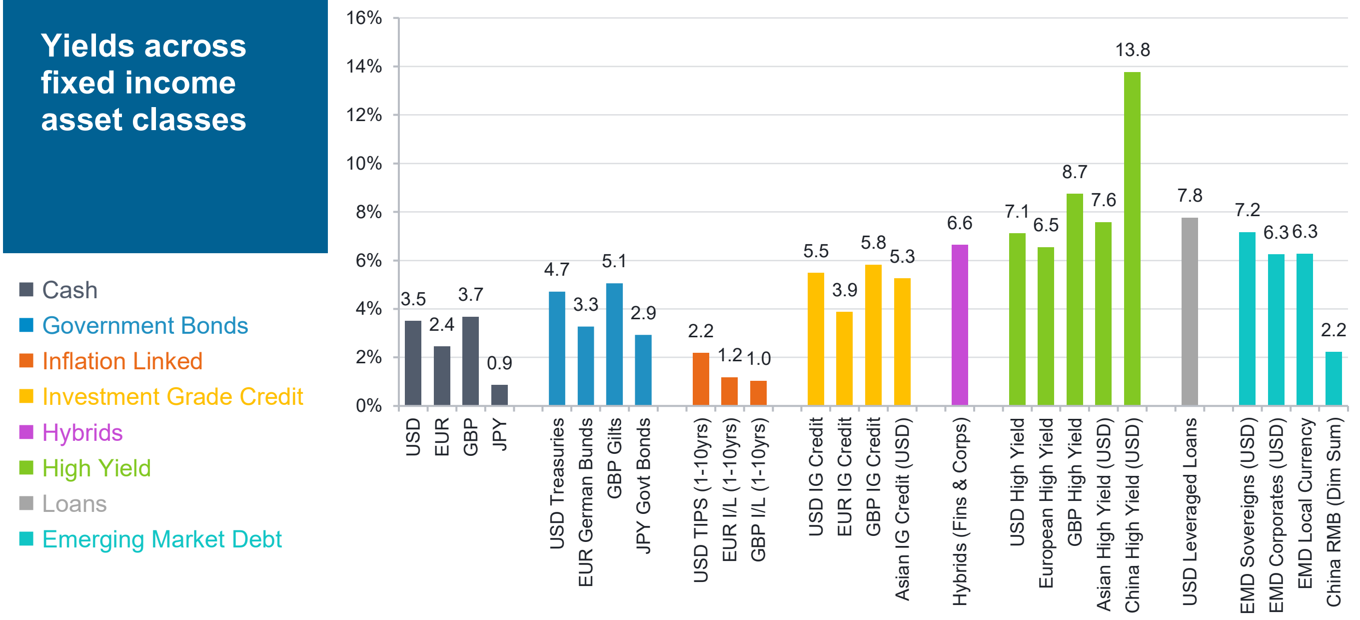
High yield	– –	–	=	+	++
High yield credit beta		●	←		
US high yield		●			
European high yield		●	←		
Asian high yield			●		

- We maintain a slightly negative stance on US HY, as tight spreads, weaker CCC-rated credits and heavier September issuance are balanced by supportive earnings and broadly sound credit quality.
- We have moved from neutral to slightly negative on European HY, as stretched valuations, rising yields, heavier supply and political risks outweigh still-resilient fundamentals and demand.
- We maintain a neutral stance on Asian HY, where attractive carry, improving fundamentals and relatively short duration are balanced by tight spreads and uneven new-issue quality.

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, nimble 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, 28 August 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 August 2026 (%)

Government	1 Month	YTD	2025	2024	2023	2022	2021
US Treasuries	0.3	-0.4	6.2	0.5	3.9	-12.9	-2.4
EUR Bunds	-0.5	-1.1	-1.5	0.5	5.1	-17.6	-2.6
UK Gilts	0.2	-1.5	5.0	-4.1	3.7	-25.1	-5.3
Inflation Linked							
USD	0.1	0.6	6.8	2.0	3.6	-12.6	6.0
EUR	-0.2	2.1	1.1	0.3	5.0	-8.1	6.2
GBP	0.9	-0.8	1.3	-8.8	0.7	-34.4	3.9
Investment Grade Corporate							
USD	0.4	-0.2	7.8	2.8	8.4	-15.4	-1.0
EUR	-0.2	0.1	3.0	4.7	8.0	-13.9	-1.0
GBP	0.5	0.2	7.1	1.9	9.7	-19.5	-3.0
Asian Dollar	0.4	0.0	7.9	3.6	7.5	-11.0	0.0
Financial and Corporate Hybrids							
Contingent Convertibles	0.4	3.1	10.0	12.2	5.7	-11.4	4.7
Investment Grade Corporate Hybrids	0.1	0.9	6.7	8.4	10.2	-12.9	1.4
High Yield							
US	1.0	2.6	8.5	8.2	13.5	-11.2	5.4
European	0.5	2.1	6.4	8.3	13.1	-13.9	3.3
Asia	1.2	5.0	8.1	16.5	-0.1	-13.3	-6.2
Emerging Markets							
EM USD Sovereigns	0.9	2.8	14.3	6.5	11.1	-17.8	-1.8
EM USD Corporates	0.6	2.3	8.7	7.6	9.1	-12.3	0.9
EM Local Currency (USD unhedged)	0.9	2.7	19.3	-2.4	12.7	-11.7	-8.7
China RMB	1.1	5.3	10.8	3.8	4.8	1.9	3.2

Source: Fidelity International, ICE, Bloomberg, 31 August 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

- Oil prices moved higher as tensions in the Middle East persisted, with uncertainty around the Strait of Hormuz keeping energy and inflation risks in focus.
- Long-dated sovereign yields rose across major markets, with pressure most visible in Japan, the US and France, while heavy corporate issuance added to concerns around supply at the longer-end.
- Central bank signalling remained unsettled as the market reassessed the Federal Reserve's reaction function in the run-up to Jackson Hole.

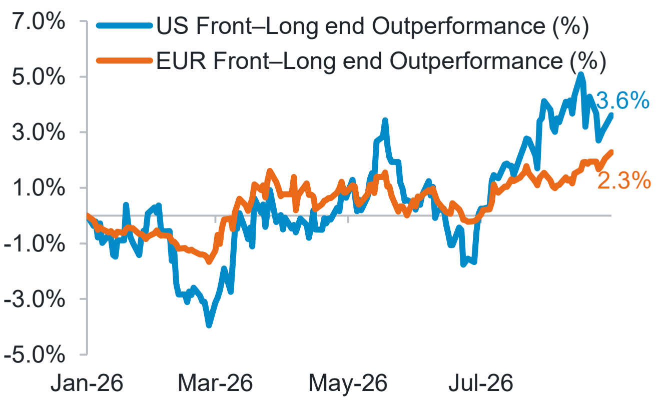
Strategy	– –	–	=	+	++
Overall duration				●	
US duration			●		
Europe duration				●	
Emerging markets duration			●		
Developed Asia duration				●	
Inflation				●	
Credit	●				

Outlook

Whilst we remain long duration overall, we have become more selective following the sharp rise in longer-dated sovereign yields. We added US and UK duration in early August in response to the signs of weakness in the US labour market and a relatively muted bond rally, which supported the case for lower yields.

However, we have subsequently reduced our overall position as the Middle East conflict continued to persist and pressure at the longer end of the curve intensified. We still believe markets are pricing in too many hikes across several developed economies, however we currently prefer to express this view towards the front end of the curve through yield-curve steepeners.

Front-end favoured as long-end pressures rise



Source: Fidelity International, Bloomberg, 31 August 2026.

Inflation is another area where we see value. Recent data has been generally benign, with softer food inflation contributing to downside inflation surprises. However, we believe markets may be extrapolating these trends too far, particularly as food price pressures could re-emerge, while energy prices remain sensitive to developments in the Middle East. We therefore remain long medium-term US inflation, primarily through two- and three-year inflation swaps, reflecting our view that US inflation remains underpriced.

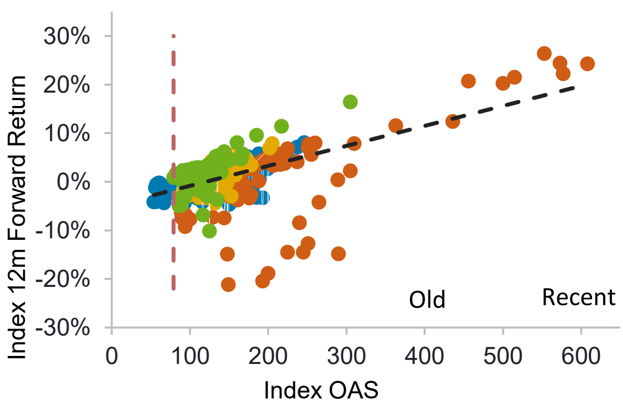
We have also become more selective within our emerging market positioning and have recently trimmed exposure to Colombian local bonds following their strong performance and closed our Brazilian local bond exposure, given the increasing political risks as we approach the October presidential election. Despite these reductions, attractive real yields in selected emerging markets support our broader allocation.

Currency positioning remains focused on a small number of higher conviction views. We retain a bearish bias towards the US dollar, sterling and Japanese yen, while favouring Norwegian krone and selected emerging market currencies, predominantly in Latin America.

In Japan, intervention alone is unlikely to deliver sustained yen strength without materially higher interest rates. Norway's stronger fiscal position, alongside support for the krone from higher oil prices, underpins our positive view on the currency.

Further policy intervention aimed at containing longer end US yields could weigh on the dollar, while sterling looks expensive on an inflation-adjusted basis.

Tight credit spreads have historically been associated with lower forward returns



Source: Fidelity International, ICE BofA US Corporate Index, 31 August 2026.

Credit remains an area where we are cautious. Developed-market corporate spreads remain close to historically tight levels and offer limited compensation should growth weaken or market volatility increase.

Investment grade credit

Monthly review

- Global IG credit was broadly resilient in August, with stable spreads despite heavy issuance, tighter financial conditions and more selective demand.
- US IG remained supported overall, although technology, datacentre and utility supply created greater dispersion and kept pressure on the market.
- Euro IG lagged modestly as higher energy prices and tight valuations limited upside, although spreads remained relatively stable.

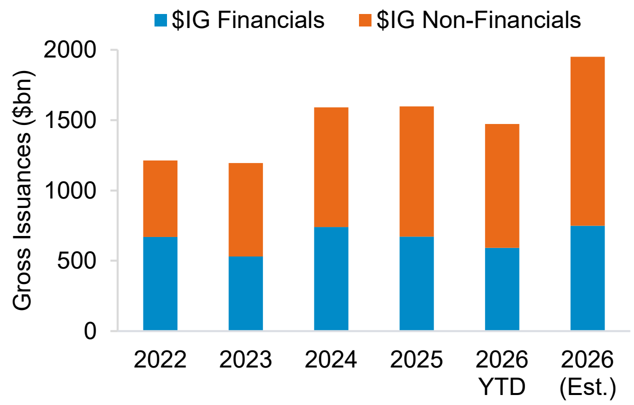
Strategy	– –	–	=	+	++
IG credit beta		●			
USD IG		●			
EUR IG		●			
GBP IG		●			
Asian IG (USD)			●		

Outlook

Global IG credit returned 0.2% in August, with spreads remaining stable. Credit fundamentals remain generally sound, but the balance of risks is becoming less favourable. Spreads remain close to historical lows, limiting the compensation available for macroeconomic and policy uncertainty, while tighter financial conditions, heavy issuance calendars and weaker demand outside the strongest sectors are testing market resilience. Outside technology and financials, new issues have received a less consistent reception, while secondary liquidity appears less robust. That said, dispersion is creating selective opportunities, particularly where high-quality hyperscaler and AI-related issuers bring new bonds at attractive concessions.

We remain cautious on adding broad credit risk, while favouring selected higher quality credit opportunities, preserving capacity for concession-led new issues and retaining scope to add duration selectively in government bond markets as yields move higher.

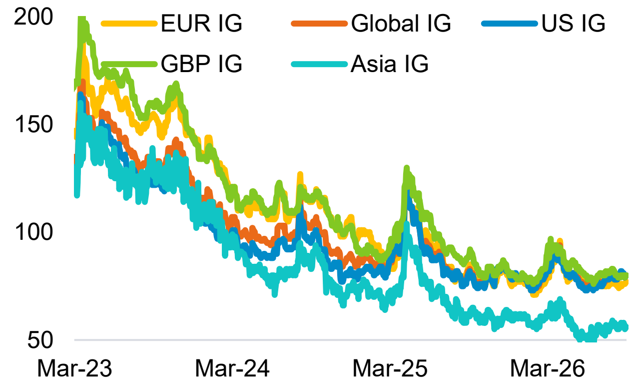
US $IG supply on track for a record year in 2026



Source: Fidelity International, Deutsche Bank, 02 September 2026.

US IG credit returned 0.4% in August, with spreads 1bp wider. The market remains increasingly bifurcated between technology and other sectors, with record issuance led by technology, data centres and utilities. Recent data-centre deals have required meaningful concessions, underscoring valuation-sensitive demand, while the scale of hyperscaler funding remains a technical overhang. Outside technology, spreads remain compressed, with limited opportunities, while consumer sensitive credits warrant caution amid rising promotions, inventory pressure and signs of trading down.

Credit spreads are trading near post-conflict tights



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

Euro IG credit returned -0.2% in August, with spreads holding firm despite higher energy prices. We are cautious given tight valuations and limited compensation for renewed rate volatility or supply pressure. The focus is on selective, high quality front-end credit where repayment visibility is stronger, while avoiding riskier hyperscaler and data-centre debt. Wider spreads in selected European government bonds have also improved relative value versus corporate credit.

Sterling IG credit returned 0.5% in August, with spreads tightening by 3bps. We are slightly cautious as tight spreads offer limited protection against a broader risk-off move, while the scope for further tightening appears modest. AI-related financing remains the key technical risk, although the extent of any spillover beyond the sector is uncertain. We therefore favour flexibility and selective additions on weakness, with security selection particularly important at the long end.

Asia IG credit returned 0.4% in August, with spreads tightening by 1bp. We are neutral to slightly positive, supported by resilient technicals and healthy demand. Recent Indian financial issuance has been well absorbed, while Asia remains relatively insulated from heavy technology-related supply in developed markets. Higher all-in yields may also attract yield-focused investors, although tight valuations continue to favour selectivity.

High yield

Monthly review

- High yield markets delivered positive returns in August, with spreads tightening despite higher yields and subdued primary issuance.
- US and European HY remained resilient, supported by healthy fundamentals despite tight spreads and a challenging rates backdrop.
- Asian HY posted positive returns, supported by resilient regional growth, and relatively short duration.

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

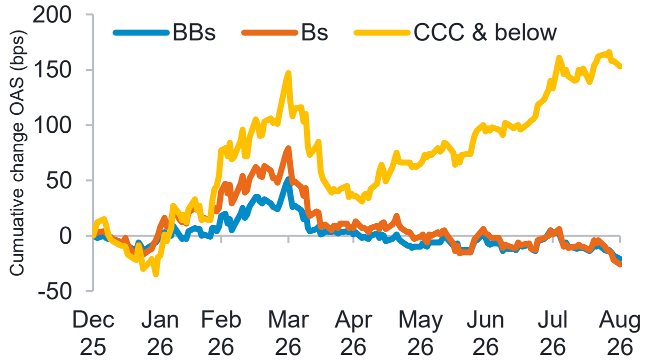
Outlook

Global HY returned 0.8% in August, while spreads tightened by 15bps. Carry and resilient fundamentals supported performance, but valuations are tight and dispersion remains elevated. The near-term backdrop is becoming less supportive, with heavier September issuance, rising yields and political and geopolitical risks likely to test demand. Overall, we have moved from neutral to slightly negative on global HY, with income support outweighed by a less favourable mix of valuations, supply and macro risks.

US high yield returned 1.0% in August and spreads tightened by 22 bps. Headline spreads remain tight, but weaker CCC-rated credits continue to lag the broader market, reflecting refinancing challenges and more stretched capital structures. Meanwhile, underlying credit quality and earnings growth across the wider market remain supportive.

We expect issuance to increase materially in the first half of September, which could result in larger new-issue concessions and temporarily weaken supply-demand conditions. Political scrutiny of datacentre investment may also rise ahead of the US midterm elections, adding another potential source of issuer-level volatility. However, resilient fundamentals should help contain broader spread widening absent a significant external or sector-specific shock. Overall, we maintain a slightly negative stance on US HY, as tight valuations and heavier near-term supply limit upside, while sound fundamentals continue to provide support.

US HY: CCC spreads continue to widen

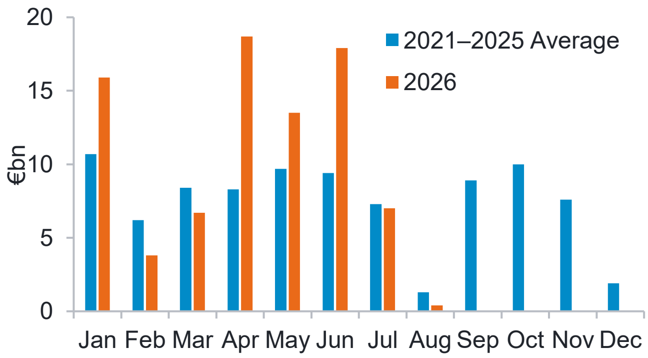


Source: Fidelity International, ICE BofA Indices, 31 August 2026.

European HY returned 0.5% in August, while spreads tightened by 9bps as a pause in new issuance and high cash balances supported secondary-market performance. However, spreads remain tight across the core market, while dispersion and idiosyncratic risk remain elevated in the lower-quality tail.

The outlook is becoming less supportive into September, with poor seasonality and a record-high new-issue pipeline likely to test demand as primary activity resumes. Rising yields also create a greater duration headwind for BB-rated bonds, while elevated energy prices could keep inflation pressures firm and limit the scope for easier European Central Bank policy, increasing funding costs for weaker borrowers. Political and fiscal events across Europe, alongside the risk of further escalation in Ukraine, add to the uncertainty. Against this backdrop, we have moved from neutral to slightly negative on European HY as risks have become less favourable against already stretched valuations.

EHY issuance: August lull ahead of September



Source: Fidelity International, JP Morgan, Bloomberg, 28 August 2026.

Asian HY returned 1.2% in August, while spreads tightened by 29bps. Improving fundamentals, a higher-quality universe and largely domestic issuers continue to support the asset class. Limited AI-related issuance has also supported supply-demand conditions, while average duration of less than three years reduces sensitivity to moves in longer-dated US Treasury yields. Overall, we remain neutral on Asian HY, with attractive carry offset by tight spreads and uneven new-issue quality.

Emerging markets

Monthly review

- EM debt was firmer in August, with positive returns across the sub-asset classes. Local and hard currency sovereigns both returned 0.9%, slightly outperforming corporates which returned 0.6%.
- Hard currency corporate and sovereign returns were supported by spread returns, while carry and a recovery in FX offset rising yields on the local side.
- We retain a cautious stance given tight valuations, engaging selectively with idiosyncratic opportunities in both local and external debt markets.

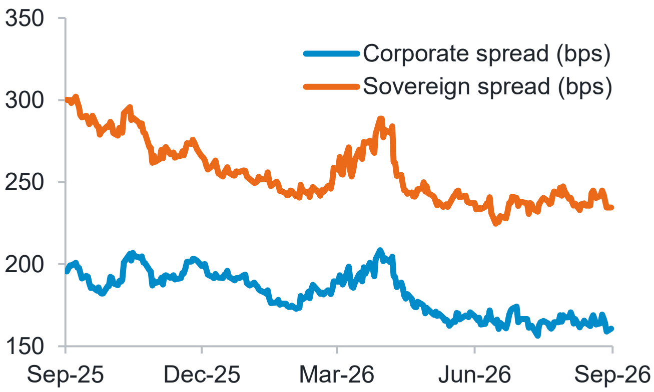
Strategy	– –	–	=	+	++
HC sovereign			●		
HC corporates				●	
LC duration			●		
EM FX			→	●	
China RMB			●		

Outlook

EM debt performance was stronger over the past month, with less divergence between the sub-asset classes which all saw positive returns. In hard currency, sovereigns slightly outperformed corporates due to higher spread returns. Local currency sovereigns were firmer in August, aided by carry and recovering EM FX which offset rising yields driven by re-escalation of the Middle East conflict.

While higher US Treasury yields weighed on hard currency debt in July, August saw a flat to slightly positive contribution. We continue to focus on disciplined credit selection with spreads remaining at compressed levels. We are also monitoring supply dynamics closely as market activity picks back up. For example, in the Gulf, war-driven fiscal strain is likely to increase issuance. Equally, we look to US dynamics with respect to financial conditions and IG spreads to determine spillover effects on EM flows.

EM spreads continue to demonstrate resilience



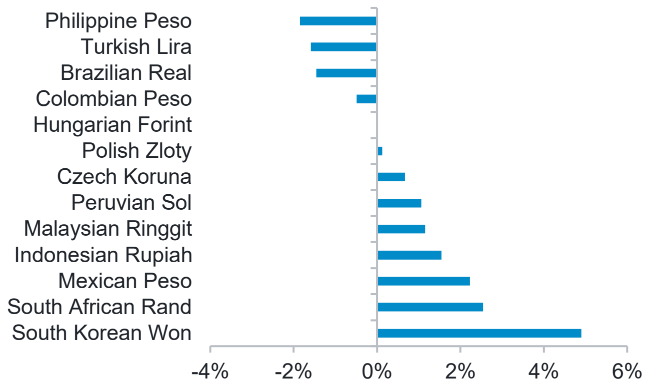
Source: Fidelity International, Bloomberg, 2 Sep 2026.

So far, flows into EM debt have remained supportive despite ongoing geopolitical uncertainty. Momentum across all three sub-asset classes remains strong, with hard currency inflows accelerating this month to +$1.6bn. Primary markets remain resilient and present a potentially interesting pipeline that could see debut deals, including from Bangladesh and Tanzania, and a return to the markets for Pakistan. We continue to analyse primary market opportunities to express relative value views while minimising transaction costs.

Yields in local rates markets have generally pushed higher in August, but at the index level are slightly below the peak in March. Central bank responses have so far been credible, and many economies have shown 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, we continue to tactically adjust positioning.

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. However, Asian currencies enjoyed a strong month, recovering from the initial weakness in the wake of the US-Iran war. The Korean Won was buoyed by policy rate hikes and resilient export data, while the Philippine Peso struggled given weaker macro dynamics.

A strong month for most Asian currencies



Source: Fidelity International, Bloomberg, 2 Sep 2026.

EM FX continues to recover, although Warsh's comments at Jackson hole offset some of the dollar weakness. We are structurally positive on EM FX, a view which is supported by the resilience of EM macro frameworks to recent shocks and stronger external buffers than in past cycles. Recently, we turned more cautious on CEE currencies after the latest escalation in Russia-Europe tensions. This highlights our focus on remaining nimble and adjusting our FX positioning in response to macroeconomic developments.

Quant tactical scorecard

Fidelity Fixed Income quantitative scorecard

2 September 2026

Credit beta and asset allocation

Credit beta	Position	Macro-economics*	Sentiment	Valuation	Seasonality
USD investment grade credit	0.43		0.9	-0.2	0.5
EUR investment grade credit	0.47		0.9	-0.1	1.0
USD high yield	0.35		0.9	-0.3	0.0
EUR high yield	0.47		0.9	-0.2	0.5
EMD sovereigns (USD)	0.05	-1.0	0.9	-0.9	0.5

Comments: Credit beta positioning is modestly long across US and European investment grade and high yield credit, while the emerging market sovereign position stays close to neutral. The largest change over the past month was a further increase in the US high yield position, driven by an improving liquidity signal and strengthening momentum.

*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	0.18	1.0	1.0	0.4	-0.5
High yield	0.20	1.0	1.0	0.4	-0.4
US loans	0.27	1.0	0.3	0.4	-0.1
EM sovereign debt (USD)	-0.02	1.0		0.4	-0.7
EM local currency debt	0.20	1.0		0.4	-0.2
EM corporate debt (USD)	0.05	1.0	0.3	0.4	-0.6

Comments: Asset allocation positioning is modestly positive across investment grade credit, high yield, US loans and emerging market local currency debt, with US loans the most preferred, while emerging market sovereign and corporate debt remain close to neutral.

Interest rates

Duration	Position	Macro	CFTC	Commodity	Cyc Vs Def	Reversion (Return)	Reversion (Yield)	Global Momentum	Slope	Seasonality
EUR	-0.06	-1.00	0.68	-0.81	-0.14	2.00	1.59	-2.00	-0.48	0.18
USD	-0.05	-1.00	0.68	-0.81	-0.14	2.00	1.42	-2.00	-0.55	-0.06
GBP	-0.05	-1.00	0.68	-0.81	-0.14	2.00	1.39	-2.00	-0.26	-1.38

Comments: Duration positioning stays close to neutral with a small short bias across European, US and UK ten year rates. The largest change over the past month was in European duration, which moved further short as the macro signal weakened and bond momentum turned more negative.

Cross-market duration	Position	Signal	Slope	Real Yield	Fair Value	Growth	Inflation	Unemployment	IIP	Budget Balance
AUD	-0.26	-0.08	-0.37	-0.10	0.20	0.94	0.20	0.36	-0.47	-0.01
CAD	-0.09	-0.09	0.14	0.17	0.15	-0.63	0.19	-0.57	-1.25	-0.09
CHF	-0.24	-0.35	-0.24	-0.39	-1.47	-0.35	-0.39	0.51	-0.80	-0.17
EUR	-0.48	-0.36	-0.52	-0.30	-0.14	0.00	-0.17	-0.64	-0.20	-0.16
GBP	0.36	0.08	-0.09	-0.09	-0.08	-0.13	0.12	0.74	0.96	0.06
JPY	0.27	0.88	1.27	1.08	0.72	-0.31	0.02	0.19	2.05	0.03
NZD	0.06	0.05	0.24	-0.31	0.07	0.13	-0.21	0.36	-1.28	0.43
SEK	0.50	-0.09	-0.06	-0.26	0.21	0.36	-0.38	-0.68	0.55	-0.54
USD	-0.10	-0.04	-0.38	0.20	0.34	-0.03	0.63	-0.27	0.43	0.45

Comments: Cross-market duration positioning is long Swedish, UK and Japanese rates and short euro area, Australian and Swiss rates, with the euro area position the largest short. Positioning has stayed broadly stable over the past month, with no material changes across markets.

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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