

Q2 2026 market outlook and positioning

Rational Optimism: Seeing the fundamental market drivers beyond recent geopolitics

Not FDIC Insured • May Lose Value • No Bank Guarantee

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5 themes for 2026, and investments to consider

Looking past near-term macro noise to the structural drivers supporting earnings resilience

Five themes for 2026

1. **Productivity:** The AI renaissance
2. **Monetary/fiscal stimulus:** Policy as a growth catalyst
3. **Economic acceleration:** The wealth effect whiplash
4. **Diversification:** Spreading risk amid equity market concentration
5. **Selectivity:** As dispersion increases, so should investor precision

Resilient Scenario

- Resilient economic growth
- Sticky inflation
- Normalizing labor market

Equities

- Quality growth
- Dividend-oriented value
- Quality non-U.S. equities

Bonds

- Benchmark-neutral duration

Other

- Options-based strategies

Lean into growth

An AI renaissance of innovation, automation, and productivity gains may continue to benefit growth strategies.

Broadening out

Seek cyclical companies whose fundamentals are more closely aligned to the acceleration of economic growth.

Lower volatility

Defensive assets like fixed income and dividend equities can help stabilize a diversified portfolio.

Resilient scenario supports stocks, bonds, and alternative assets

Investors may benefit from a balanced asset allocation and low-correlated asset classes

	Optimistic scenario	Resilient scenario	Pessimistic scenario
	<ul style="list-style-type: none"> • Re-accelerating economic growth • Healthy inflation • Stable labor market 	<ul style="list-style-type: none"> • Resilient economic growth • Sticky inflation • Normalizing labor market 	<ul style="list-style-type: none"> • Mild recession • Inflation recedes • Broad layoffs
Equities	<ul style="list-style-type: none"> • Opportunistic growth • Economically sensitive (value and SMID) • Quality non-U.S. equities (EM and DM) 	<ul style="list-style-type: none"> • Quality (growth) • Dividend-oriented value • Quality non-U.S. equities 	<ul style="list-style-type: none"> • Defensive sectors (consumer staples, health care, utilities)
Bonds	<ul style="list-style-type: none"> • Quality short duration and credit 	<ul style="list-style-type: none"> • Benchmark-neutral duration 	<ul style="list-style-type: none"> • Long duration
Other	<ul style="list-style-type: none"> • Commodities, real estate, options-based strategies 	<ul style="list-style-type: none"> • Options-based strategies 	<ul style="list-style-type: none"> • Gold, cash, and alternatives

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Volatility: It's all part of investing in the stock market

To achieve the power of compounding, an investor must tolerate downside risk

Frequency and magnitude of historical equity market risk (since 1950)

- 3 corrections of **5%** per year
- 1 correction of **10%** per year
- 1 correction of **>15%** once every 3 years
- 1 correction of **>20%** once every 5 years



Opportunity:

~11% annual historical return



S&P 500 "batting average"

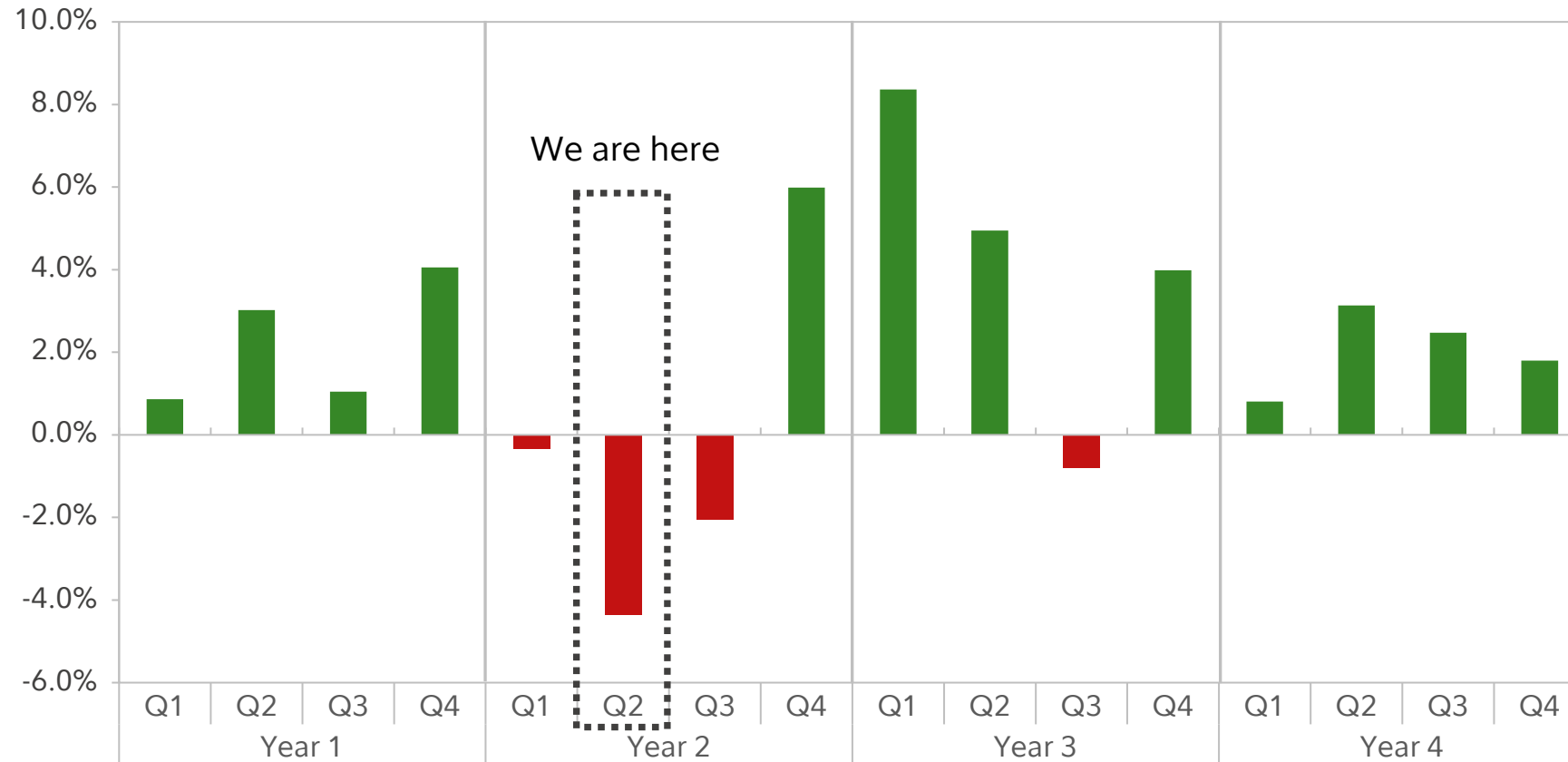
(i.e., % of positive calendar years) since 1950



Midterm elections and the stock market

Midterm elections tend to bring downside volatility to the stock market. However, the S&P 500 has not declined in the 12 months following a midterm election since 1938.

Quarterly average S&P 500 price returns by presidential cycle (1961–2024)



	Market drawdown	NTM return
Year 1	-12.3%	7.8%
Year 2	-19.4%	31.0%
Year 3	-11.6%	18.7%
Year 4	-13.3%	24.2%

Three engines of growth in 2026

AI investment, industrial reshoring, and fiscal policy are durable growth drivers

AI spending

- 1 Datacenter spending
- 2 AI energy spending
- 3 Productivity gains from AI

Industrial Renaissance

- 1 Semiconductors
- 2 Manufacturing
- 3 Defense

Fiscal stimulus

- 1 Lower household taxes
- 2 100% immediate expensing
- 3 Infrastructure and defense

Q2 2026 headwinds and tailwinds = constructive but cognizant

Headwinds may be short-lived, while tailwinds may have more longevity



Headwinds

- Heightened geopolitical uncertainty—duration of conflict in Iran will be critical
- Labor growth has slowed and inflation poses a short-term risk
- Rate easing cycle uncertainty (“fog on the bridge”)
- AI concerns: concentration, valuations, capex, ROI
- Higher global long-term yields could pose challenges for risk assets
- Equities have historically traded defensively in midterm election years



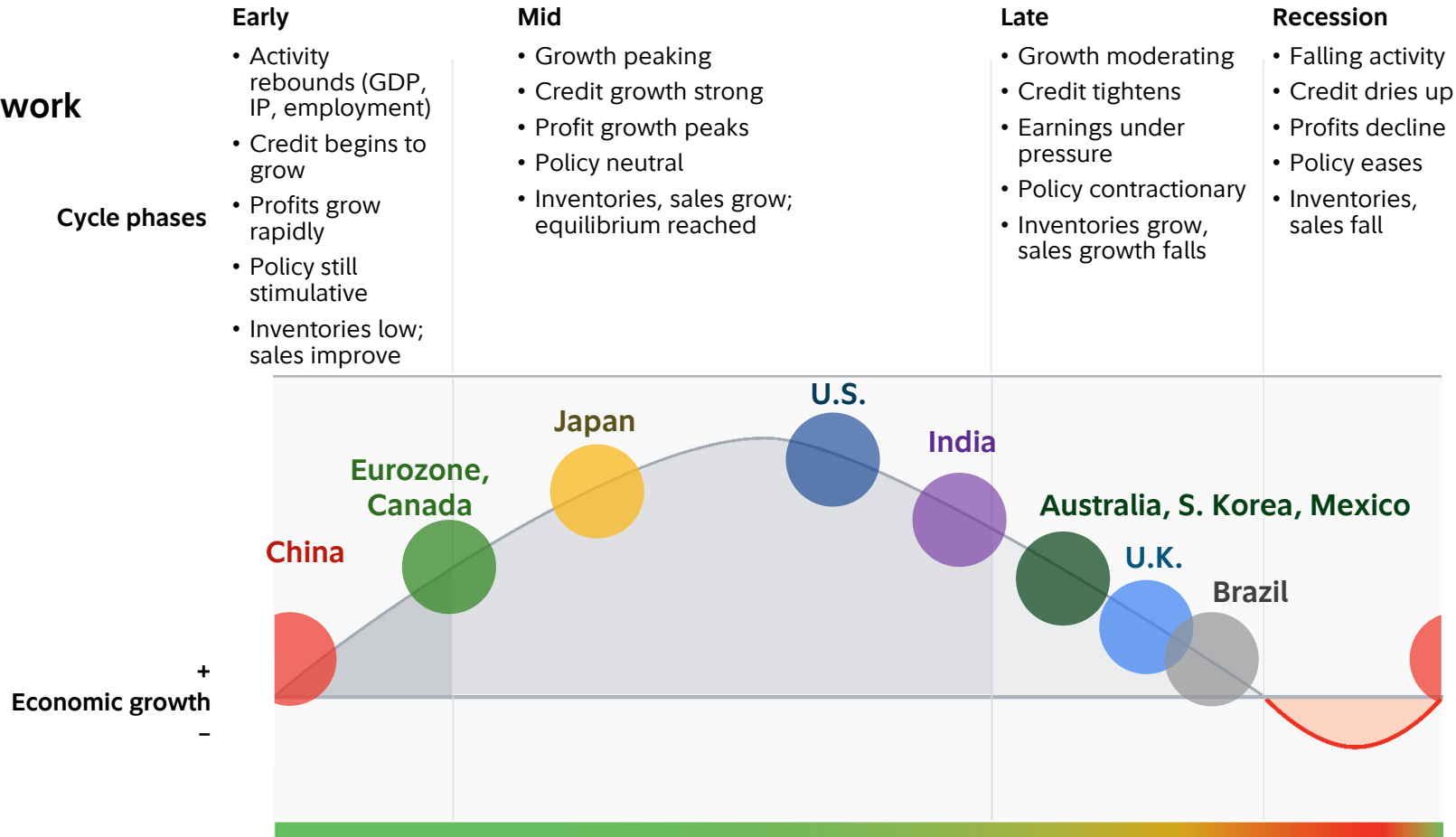
Tailwinds

- Corporate earnings expectations have risen
- Near-term valuation compression
- Consumer spending is still expanding
- One Big Beautiful Bill Act (OBBBA) is helping businesses and the consumer
- Equity AND credit markets are not showing signs of distress
- Artificial intelligence serves as catalyst for economy and companies (semiconductors, infrastructure, and applications)
- Deregulation and a pick-up in M&A could spur economic activity
- Defense spending is increasing globally

Global business cycle in an unsynchronized expansion

The global economy remains in a solid expansion amid policy crosscurrents

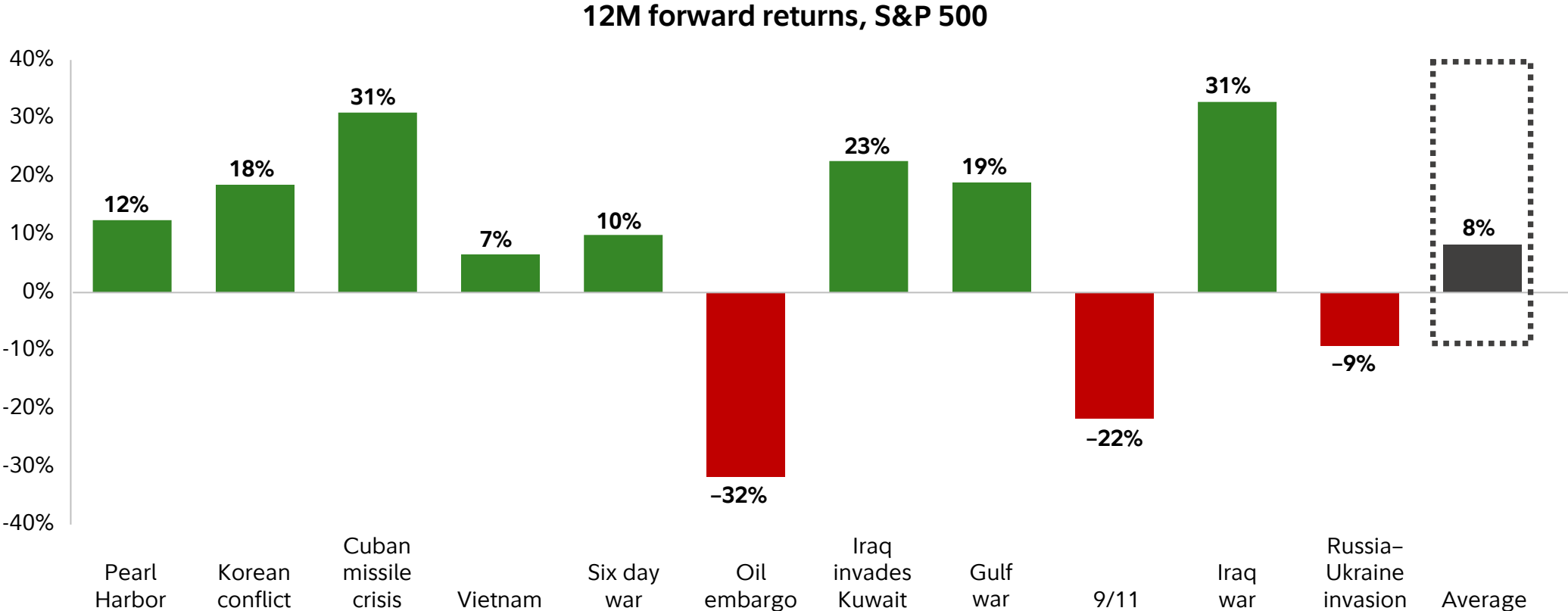
Business cycle framework



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Geopolitical shocks have rarely derailed long-term equity returns

Equity return in the year following a geopolitical shock has averaged roughly 8%



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Energy prices matter, but this is not the 1970s

Energy shocks are less economically disruptive as energy spending takes a smaller share of household budgets

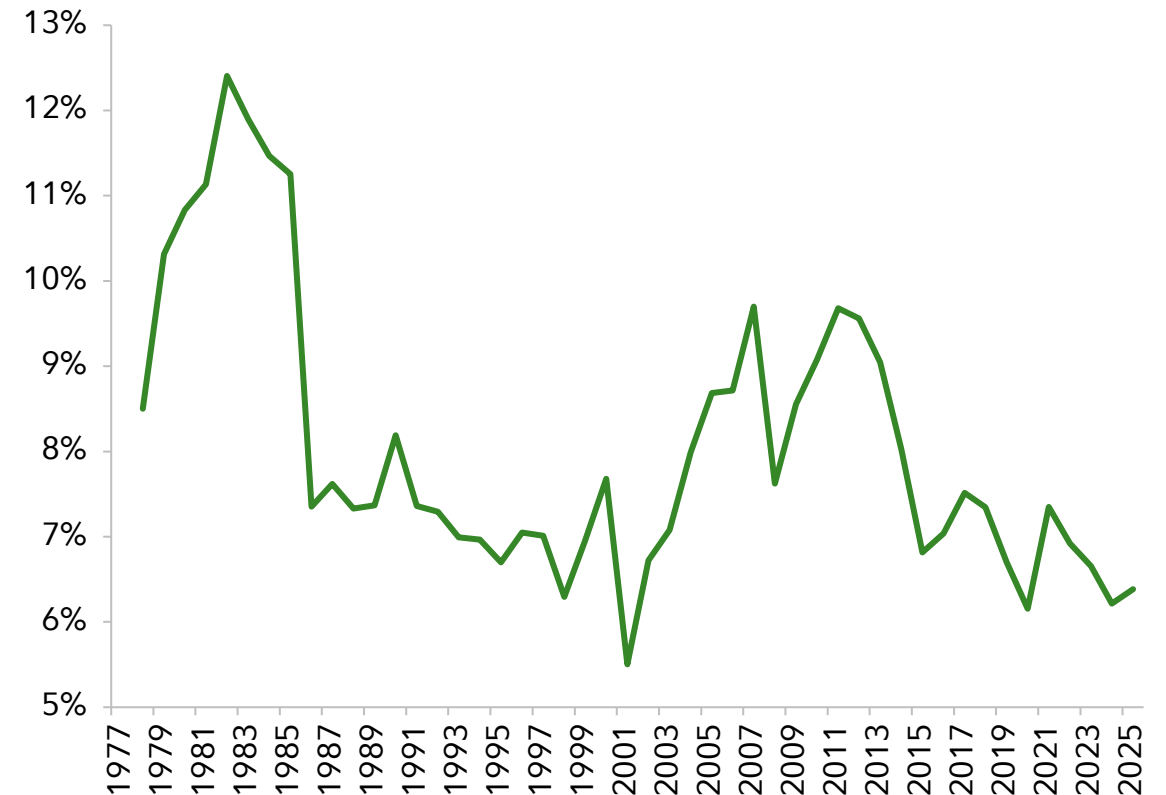
U.S. field production of crude oil

Thousand barrels per day



Energy as a share of consumption

Weight in CPI basket

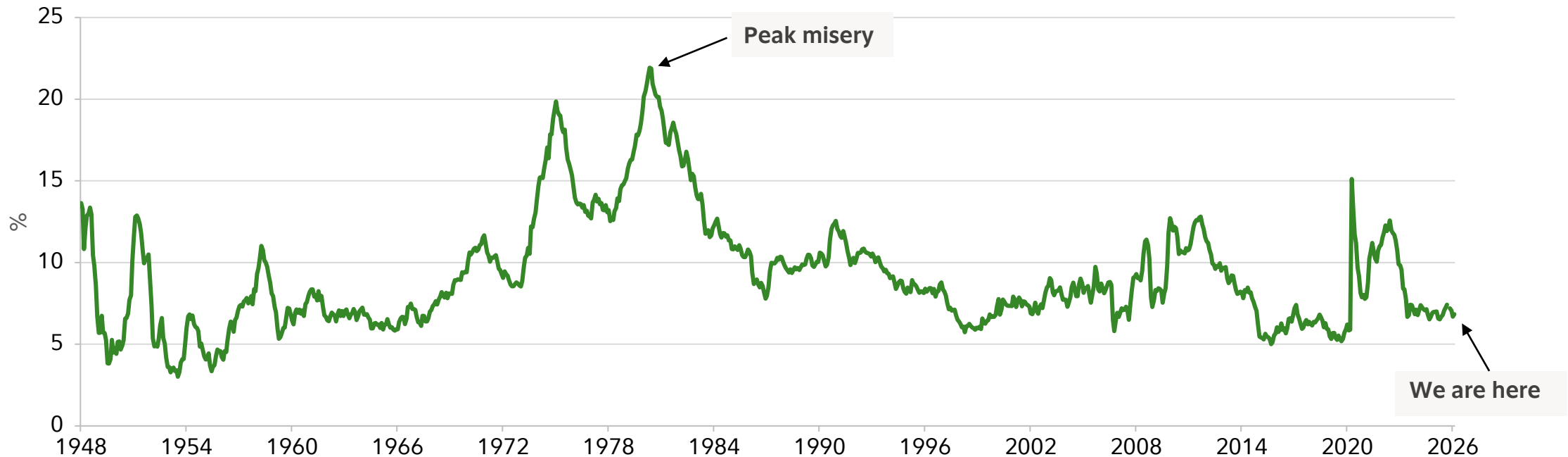


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Stagflation is often framed by the 'Misery Index': Inflation + Unemployment

We're very mildly miserable by historical measures, and nowhere near the peak misery of the 1970s

Misery Index (Unemployment Plus Consumer Price Index)



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Inflation remains sticky, complicating the Fed policy path

Rising goods prices adding to above-target inflation while sticky services inflation is keeping the pressure on

AART Inflation forecast vs. market expectations

Year-over-year

◆ Expectations as of 12/31/25



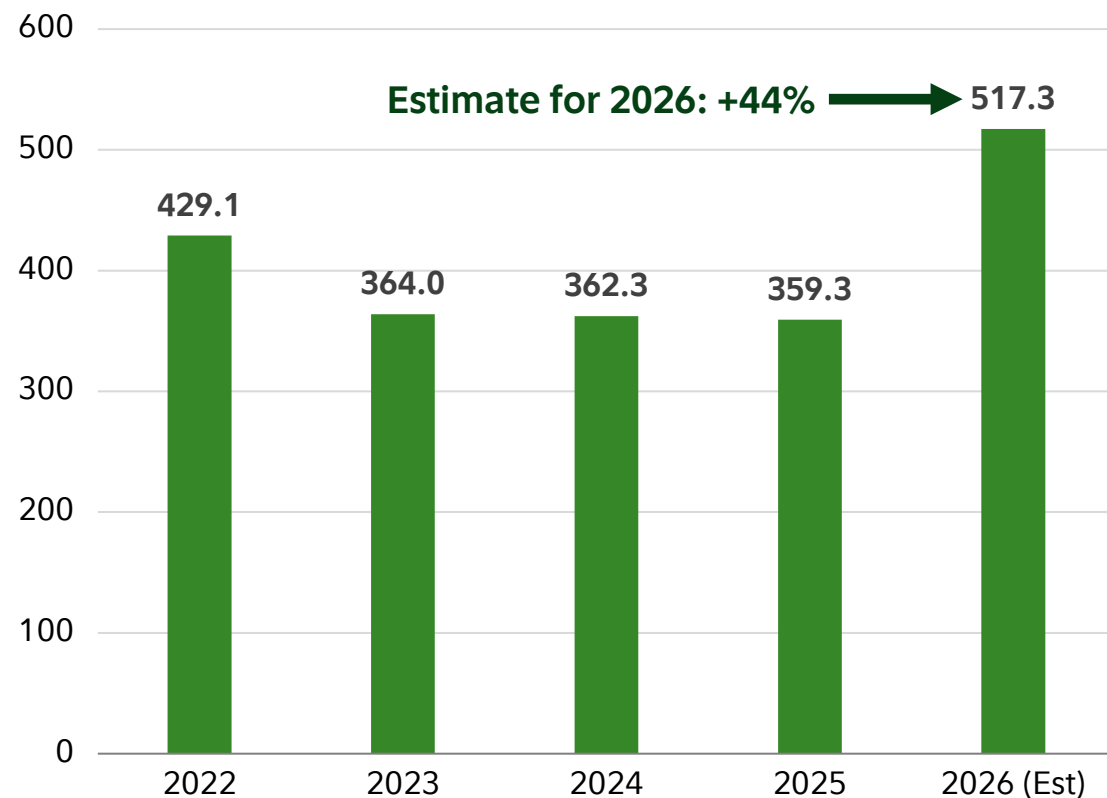
Expected annual impact of \$100 oil on U.S. CPI

Core	Headline
+0.7%	+1.3%

Tax savings from OBBBA helping offset near-term oil price shock

The One Big Beautiful Bill Act will potentially contribute to the largest tax refund season in U.S. history and is likely to help alleviate near-term oil price shock for consumers.

Federal Tax Refunds (\$billions)



Source: IRS, U.S. House Committee on Ways & Means as of 1/12/26.

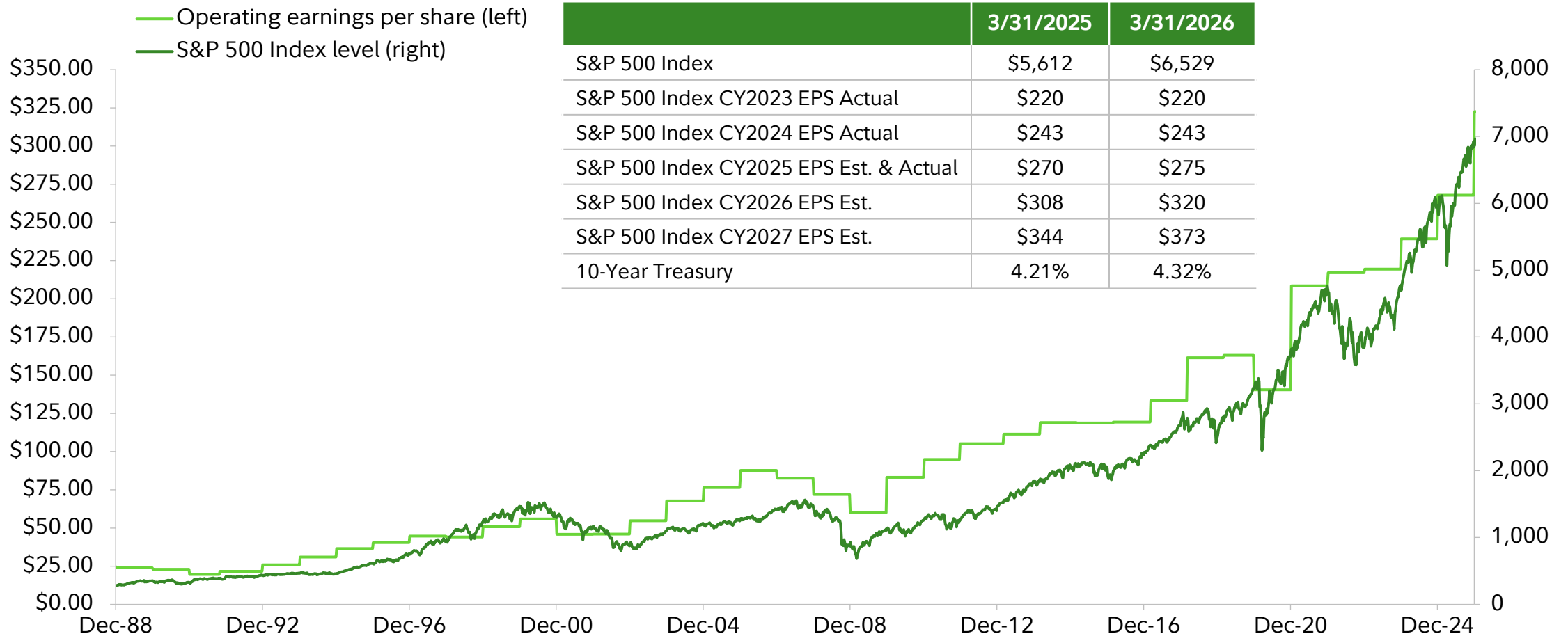
One Big Beautiful Bill Act 2026	Billions \$	GDP impact
Net business tax cuts	123	0.4x
Net personal income tax cuts	162	0.4x
Spending cuts	-57	0.7x
Spending increases	61	1.0x
Total (% of GDP)	0.9%	0.4%

Net interest outlay and forecast from CBO. AART uses estimated multipliers to assess potential impact on GDP. Analysis does not include tariff revenue or impact. Dollar figures reflect the expected impact on GDP growth (positive or negative). Source: Congressional Budget Office (CBO), Fidelity Investments (AART) as of 9/30/25.

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Stock prices reflect company earnings

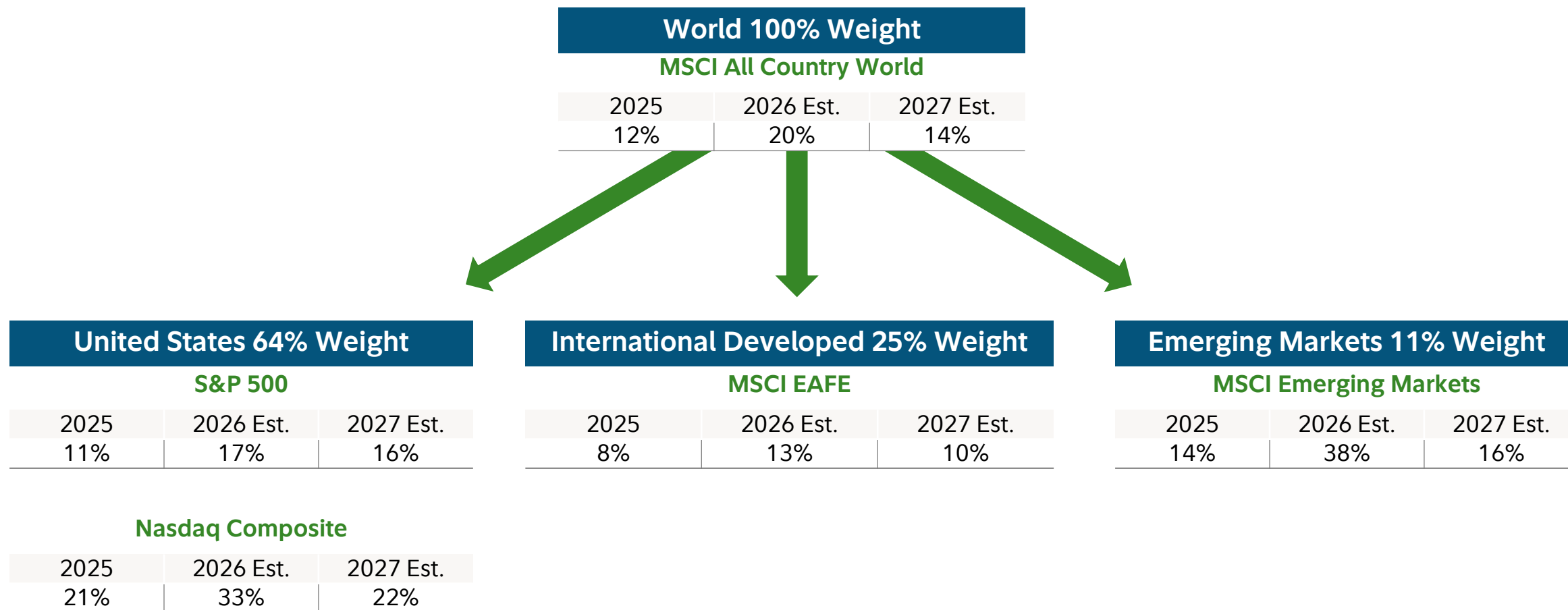
This is a central relationship an investor must consider for long-term success



Past performance is no guarantee of future results. It is not possible to invest directly in an index. All market indices are unmanaged. Index performance is not meant to represent that of any Fidelity mutual fund. Note: The 2008 operating earnings per share of \$65 excludes the asset write-downs from financial companies. The earnings per share for 2008 would be \$52 with the inclusion of these write-downs. Provides current themes and views of the Capital Markets Specialist Group within Fidelity Institutional, as of 3/31/26. Individual views or outlooks may differ. Views are not intended to be substitutes for strategic asset allocation and reflect market views based on current economic conditions. Diversification does not ensure a profit or guarantee against a loss. The statements and opinions are subject to change at any time, based on market and other conditions. Source: FactSet, as of 3/31/26.

Solid global earnings growth

Earnings growth remained positive across regions in Q1 and upward momentum has accelerated from previous months



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Upward earnings revisions with optimistic margin outlook

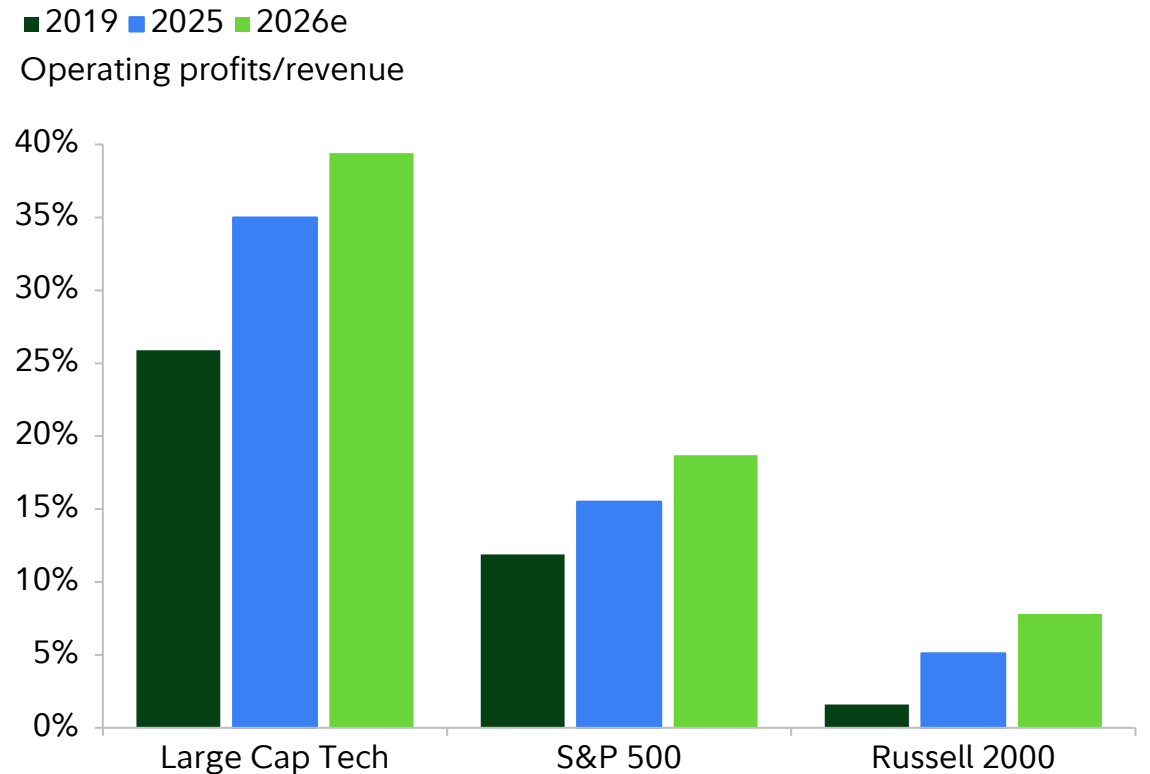
The market expects technology-led, double-digit earnings growth in both 2026 and 2027, and is also optimistic smaller companies can achieve higher profits

U.S. equity earnings growth expectations



Mag 7 = Apple, Amazon, Google, Meta, Nvidia, Microsoft, and Tesla. Aggregate analyst earnings estimates used for 2026/2027. Source: Bloomberg Financial LP, Fidelity Investments (AART), as of 3/31/26.

Profit margins



Aggregate analyst earnings estimates used for 2026. Source: Bloomberg, Fidelity Investments (AART), as of 3/31/26.

The evolution of artificial intelligence

From digital intelligence to real-world action

Generative AI

Can create new content such as images, text, audio, or video based on the data it has been trained on.



- Content generation (text, images)
- Language translation
- Predictive text
- Summarization

Agentic AI

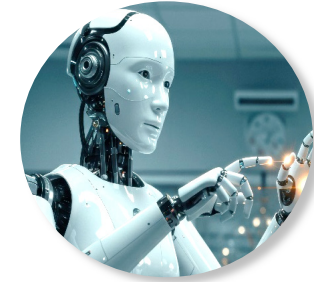
Autonomous systems that reason, plan, and execute multi-step tasks. Utilizes external tools and adapts based on feedback.



- Autonomous workflow automation
- Sophisticated personal assistants
- Collaborative multi-agent systems
- Dynamic research and coding

Physical AI

Integration of agentic intelligence into physical hardware. AI interacts with the physical environment through sensors.

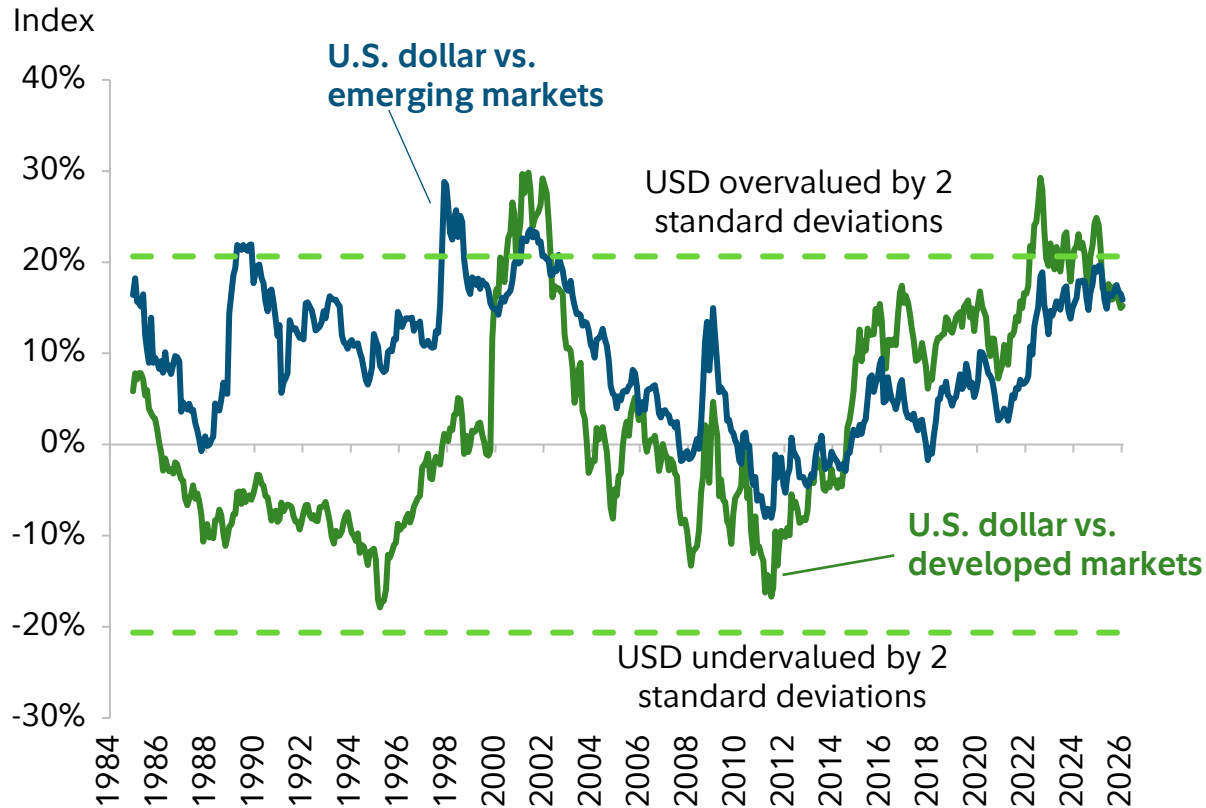


- Advanced humanoid robotics
- Autonomous drones and vehicles
- Smart manufacturing and logistics
- Surgical robots & medical devices

Dollar valuation elevated, potential tailwind for non-U.S. equities

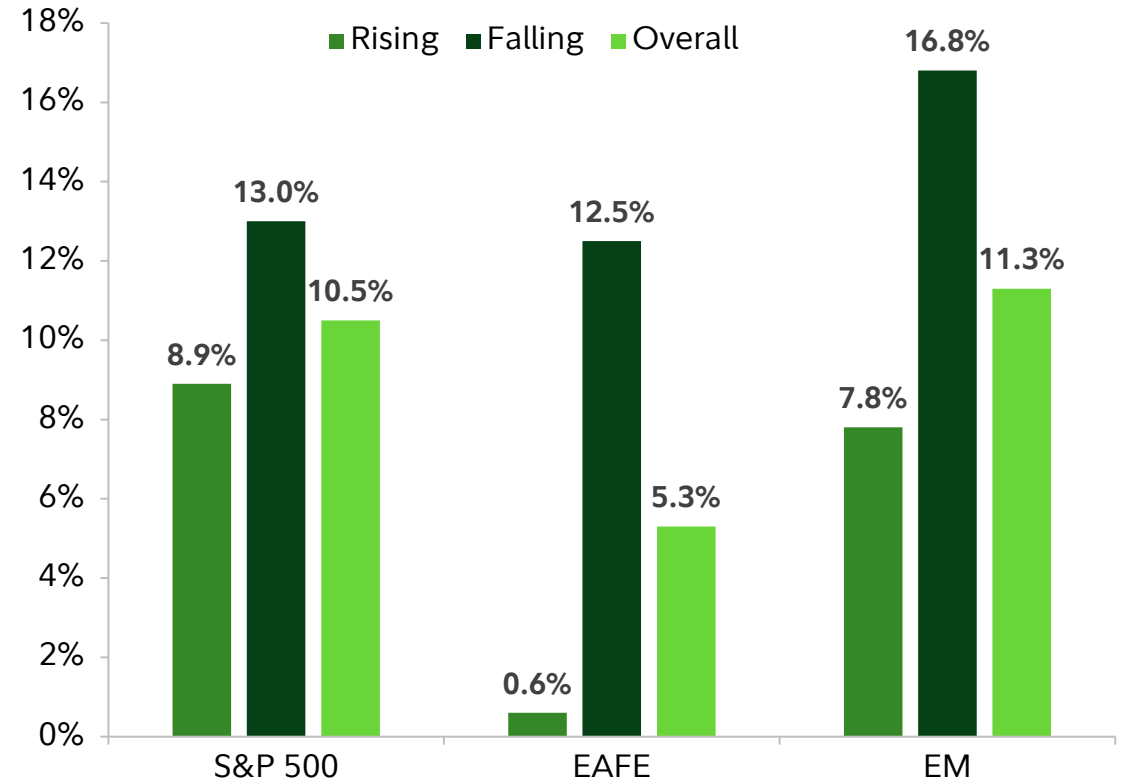
Historically, a weaker dollar is a tailwind for the relative returns of both developed- and emerging-market stocks

U.S. dollar valuations (1985–2025)



U.S. Dollar Index is DXY. Measures the dollar against a basket of six currencies (Euro, Japanese Yen, British Pound, Canadian Dollar, Swedish Krona, Swiss Franc). Source: Bloomberg, EPFR, Macrobond, Fidelity Investments (AART) as of 2/28/26.

Average annual performance when U.S. dollar index (DXY) is rising and falling 1988–2025



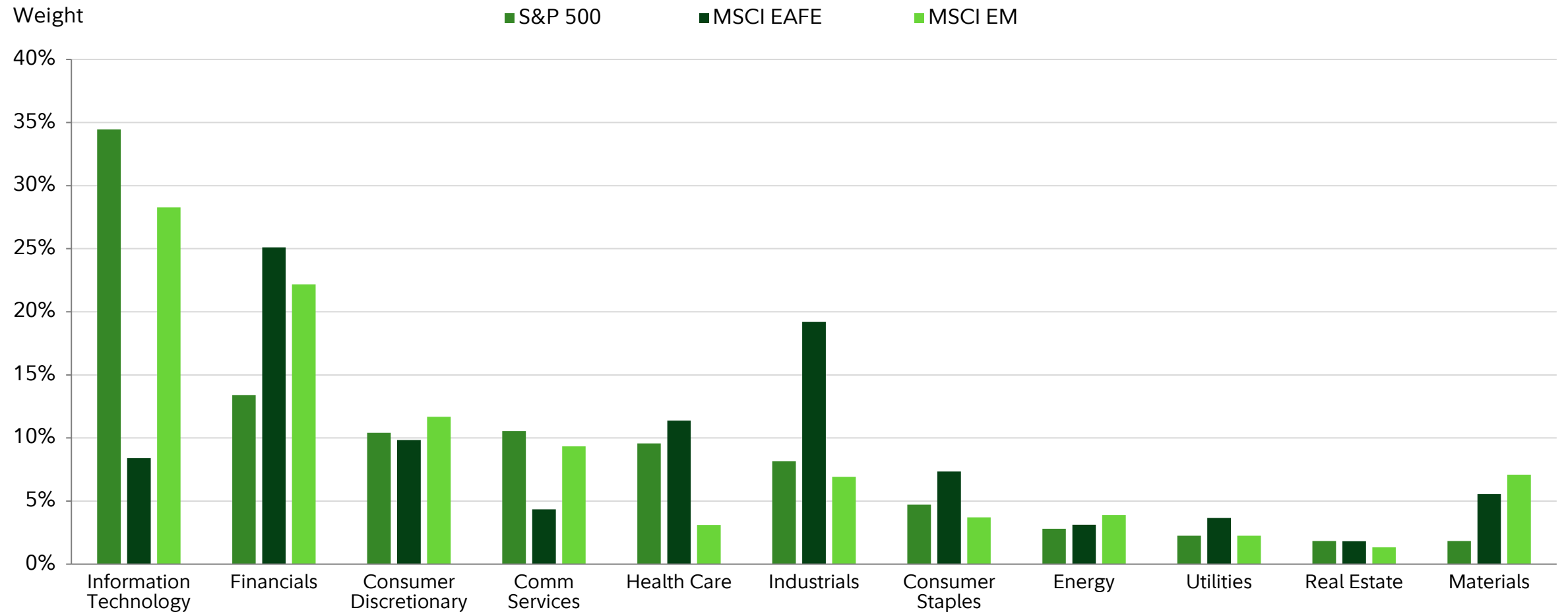
DM is represented by MSCI EAFE Net Total Return USD Index. EM is MSCI Emerging Net Total Return USD Index. U.S. is S&P 500. The dollar is represented by the U.S. Dollar Index (DXY). Source: MSCI Company, S&P Global, Bloomberg, Macrobond, Fidelity Investments (AART), as of 12/31/25.

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Portfolio diversification with international equities

Sector composition is very different between the U.S. and non-U.S. markets.

Index sector weights



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Fixed income yields are attractive even as spreads are tight

Bonds offer income and diversification, but returns will likely be driven more by yield and carry than spread compression

10-yr treasury/U.S. Agg

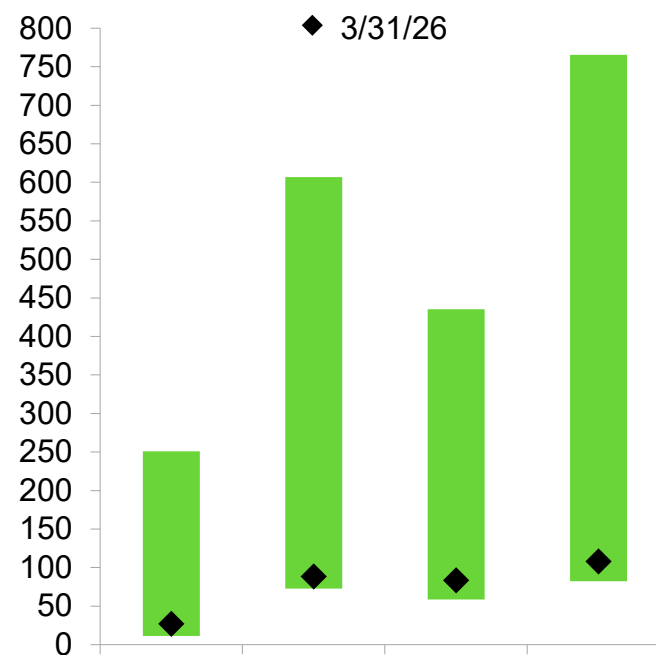
Yield (%)



Asset class	10-year treasury	U.S. aggregate
Yield percentile rank	88	77

Investment-grade sectors

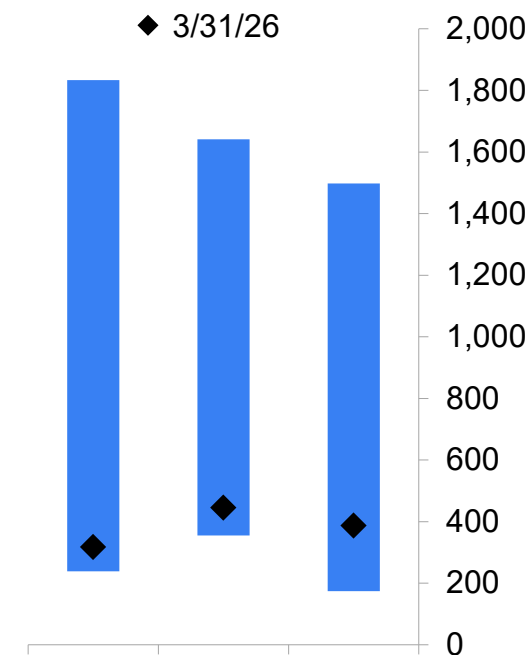
Spread (basis points)



Asset class	Securitized	U.S. corporate IG	Int'l credit	EM debt-investment grade
Spread Percentile rank	11	12	14	12

High-yield sectors

Spread (basis points)



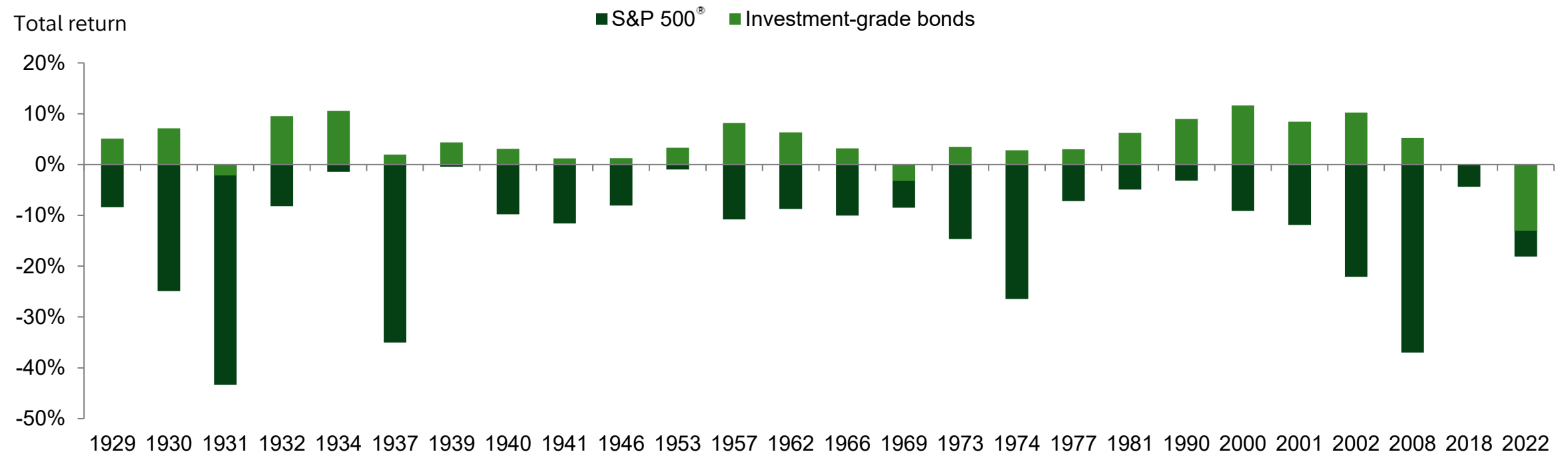
Asset class	U.S. corporate high yield	Leveraged loans	Emerging-market debt-high yield
Spread percentile rank	18	41	17

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Bonds have often provided ballast against stock losses

Since 1926, investment-grade bonds returns were positive for most of the years in which stocks declined

Bond returns in years when stocks declined, 1926–present

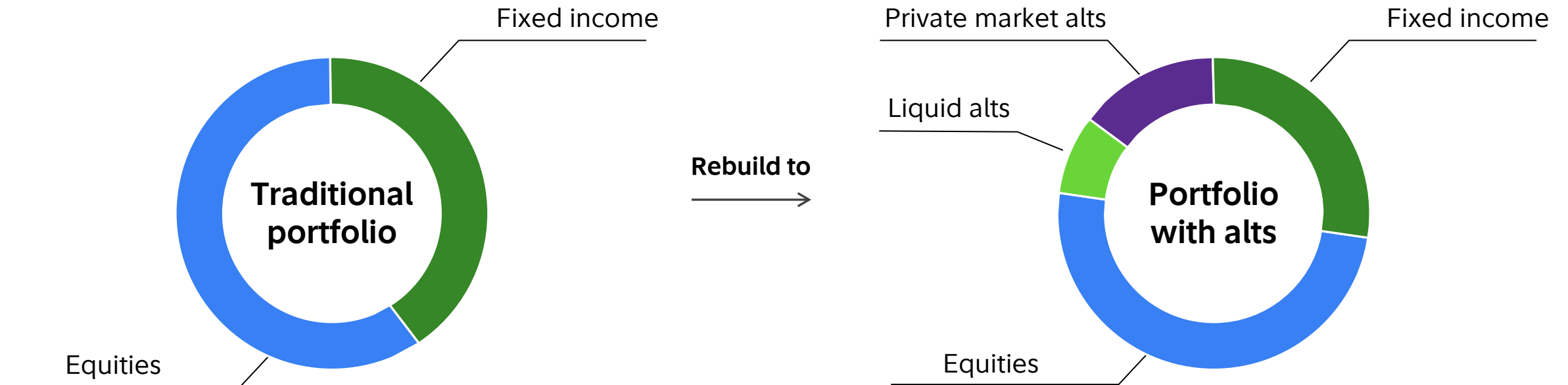


Note: Chart depicts years in which the calendar year returns for the S&P 500 were negative and how investment-grade bonds performed in the corresponding year.

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Alternative investments may help enhance portfolio resilience

In a higher-inflation regime, investors might consider a more diversified portfolio that includes alternative investments



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Important information

Stock markets, especially foreign markets, are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments.

Foreign securities are subject to interest rate, currency exchange rate, economic, and political risks, all of which are magnified in emerging markets.

In general, the bond market is volatile, and fixed income securities carry interest rate risk. (As interest rates rise, bond prices usually fall, and vice versa. This effect is usually more pronounced for longer-term securities.) Fixed income securities also carry inflation, credit, and default risks for both issuers and counterparties. (Unlike individual bonds, most bond funds do not have a maturity date, so holding them until maturity to avoid losses caused by price volatility is not possible.) Lower-quality bonds can be more volatile and have greater risk of default than higher-quality bonds.

Sector funds can be more volatile because of their narrow concentration in a specific industry.

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ETFs are subject to market fluctuation and the risks of their underlying investments. ETFs are subject to management fees and other expenses.

Enhanced ETF risks:

Stock markets, especially foreign markets, are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments.

Although the funds seek to beat the index, this is not guaranteed, and these funds may trail the index. Foreign securities are subject to interest rate, currency exchange rate, economic, and political risks. The securities of smaller and mid-cap, less well-known companies can be more volatile than those of larger companies. Depending on market conditions, a fund may underperform, potentially for extended periods of time, compared to products that seek to track a more traditional index.

An ETF may trade at a premium or discount to its Net Asset Value (NAV). There can be no assurance that an active trade market will be maintained, and trading may be halted due to market conditions.

Value stocks can perform differently than other types of stocks and can continue to be undervalued by the market for long periods of time.

Securities selected using quantitative analysis can perform differently from the market as a whole as a result of the factors used in the analysis, the weight placed on each factor, and changes in the factors' historical trends.

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Investment decisions should be based on an individual's own goals, time horizon, and tolerance for risk.

These materials are provided for informational purposes only and should not be used or construed as a recommendation of any security, sector, or investment strategy.

All indices are unmanaged and performance of the indices includes reinvestment of dividends and interest income, unless otherwise noted, are not illustrative of any particular investment and, an investment cannot be made in any index.

Important information (continued 1)

Market Indexes

S&P 500 index is a market capitalization-weighted index of 500 common stocks chosen for market size, liquidity, and industry group representation to represent U.S. equity performance. S&P 500 is a registered service mark of Standard & Poor's Financial Services LLC.

The ISM Manufacturing Index, also known as the purchasing managers' index (PMI), is a monthly indicator of U.S. economic activity based on a survey of purchasing managers at more than 300 manufacturing firms. It is considered to be a key indicator of the state of the U.S. economy. The ISM surveys non-manufacturing (or services) firms' purchasing and supply executives. The services report measures business activity for the overall economy; above 50 indicating growth, while below 50 indicating contraction.

The ICE BofA High Yield Index tracks the performance of U.S. dollar-denominated, below-investment-grade corporate debt that is publicly issued in the U.S. domestic market.

The J.P. Morgan EMBI Global Diversified Bond Index tracks the performance of liquid, USD-denominated bonds from emerging-market sovereign and quasi-sovereign issuers. It includes a diversification overlay that caps the weight of larger countries, giving higher weight to smaller countries.

Bloomberg's commodity indices are a family of financial benchmarks designed to provide liquid and diversified exposure to physical commodities via futures contracts.

Bloomberg U.S. Aggregate Bond is a broad-based, market value-weighted benchmark that measures the performance of the investment-grade, U.S. dollar-denominated, fixed-rate taxable bond market.

Bloomberg U.S. Treasury Index is a market value-weighted index of public obligations of the U.S. Treasury with maturities of one year or more. Bloomberg U.S. Treasury Inflation-Protected Securities (TIPS) Index (Series-L) is a market value-weighted index that measures the performance of inflation-protected securities issued by the U.S. Treasury. Bloomberg Long U.S. Government Credit Index includes all publicly issued U.S. government and corporate securities that have \$250 million or more of outstanding face value. Bloomberg U.S. Agency Bond Index is a market value-weighted index of U.S. Agency government and investment-grade corporate fixed-rate debt issues. Bloomberg Municipal Bond Index is a market value-weighted index of investment-grade municipal bonds with maturities of one year or more. Bloomberg MBS Index is market-value-weighted index that tracks the performance of fixed-rate agency mortgage-backed pass-through securities issued by Fannie Mae, Freddie Mac, and Ginnie Mae. The Bloomberg Corporate Bond Index tracks the performance of the investment-grade, fixed, rate, and taxable corporate bond market.

Consumer Price Index (CPI) is an inflationary indicator published monthly by the U.S. Bureau of Labor Statistics that measures the change in the cost of a fixed basket of products and services, including housing, electricity, food, and transportation.

Sectors and **Industries** are defined by Global Industry Classification Standards (GICS®), except where noted otherwise. S&P 500 sectors: Consumer Discretionary—companies that tend to be the most sensitive to economic cycles. Consumer Staples—companies whose businesses are less sensitive to economic cycles. Energy—companies whose businesses are dominated by either of the following activities: the construction or provision of oil rigs, drilling equipment, and other energy-related services and equipment; or the exploration, production, marketing, refining, and/or transportation of oil and gas products, coal, and consumable fuels. Financials—companies involved in activities such as banking, consumer finance, investment banking and brokerage, asset management, insurance and investments, and mortgage real estate investment trusts (REITs). Health Care—companies in two main industry groups: health care equipment suppliers, manufacturers, and providers of health care services; and companies involved in research, development, production, and marketing of pharmaceuticals and biotechnology products. Industrials—companies that manufacture and distribute capital goods, provide commercial services and supplies, or provide transportation services. Information Technology—companies in technology software and services and technology hardware and equipment. Materials—companies that engage in a wide range of commodity-related manufacturing. Real Estate—companies in real estate development, operations, and related services, as well as equity REITs. Communication Services—companies that facilitate communication and offer related content through various media. Utilities—companies considered electric, gas, or water utilities, or that operate as independent producers and/or distributors of power.

MSCI USA Index is designed to measure the performance of the large and mid cap segments of the U.S. market. With 601 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in the U.S.

MSCI USA Value Index captures large and mid cap U.S. securities exhibiting overall value style characteristics. The value investment style characteristics for index construction are defined using three variables: book value to price, 12-month forward earnings to price, and dividend yield.

Important information (continued 2)

Market Indexes (continued)

MSCI USA Minimum Volatility Index aims to reflect the performance characteristics of a minimum variance strategy applied to the large and mid cap USA equity universe. The index is calculated by optimizing the MSCI USA Index, its parent index, in USD for the lowest absolute risk (within a given set of constraints). Historically, the index has shown lower beta and volatility characteristics relative to the MSCI USA Index.

Dow Jones U.S. Total Stock Market IndexSM is a float-adjusted market capitalization-weighted index of all equity securities of U.S. headquartered companies with readily available price data.

Bloomberg U.S. Treasury Index is a market value-weighted index of public obligations of the U.S. Treasury with maturities of one year or more. Bloomberg U.S. Treasury Inflation-Protected Securities (TIPS) Index (Series-L) is a market value-weighted index that measures the performance of inflation-protected securities issued by the U.S. Treasury. Bloomberg Long U.S. Government Credit Index includes all publicly issued U.S. government and corporate securities that have \$250 million or more of outstanding face value. Bloomberg U.S. Agency Bond Index is a market value-weighted index of U.S. Agency government and investment-grade corporate fixed-rate debt issues. Bloomberg Municipal Bond Index is a market value-weighted index of investment-grade municipal bonds with maturities of one year or more.

Russell 2000 Index is a market capitalization-weighted index designed to measure the performance of the small cap segment of the U.S. equity market. It includes approximately 2,000 of the smallest securities in the Russell 3000 Index.

MSCI AC World is a market capitalization-weighted index that is designed to measure the investable equity market performance for global investors of developed and emerging markets.

Nasdaq Composite Index is a market capitalization-weighted index that is designed to represent the performance of NASDAQ stocks.

MSCI EAFE Index is a market capitalization-weighted index that is designed to measure the investable equity market performance for global investors of developed markets, excluding the U.S. and Canada.

MSCI Emerging Markets Index is a market capitalization-weighted index that is designed to measure the investable equity market performance for global investors in emerging markets.

Methodology:

Opinions of the Capital Markets Specialist Group within Fidelity Institutional have for the purposes of this report have been aggregated from monthly meetings. Inputs used to formulate the group's opinions include but are not limited to: Reports from other Fidelity teams regarding the state of the markets, market sentiment, and asset class valuations.



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