

More optimism with a “highly uncertain” path

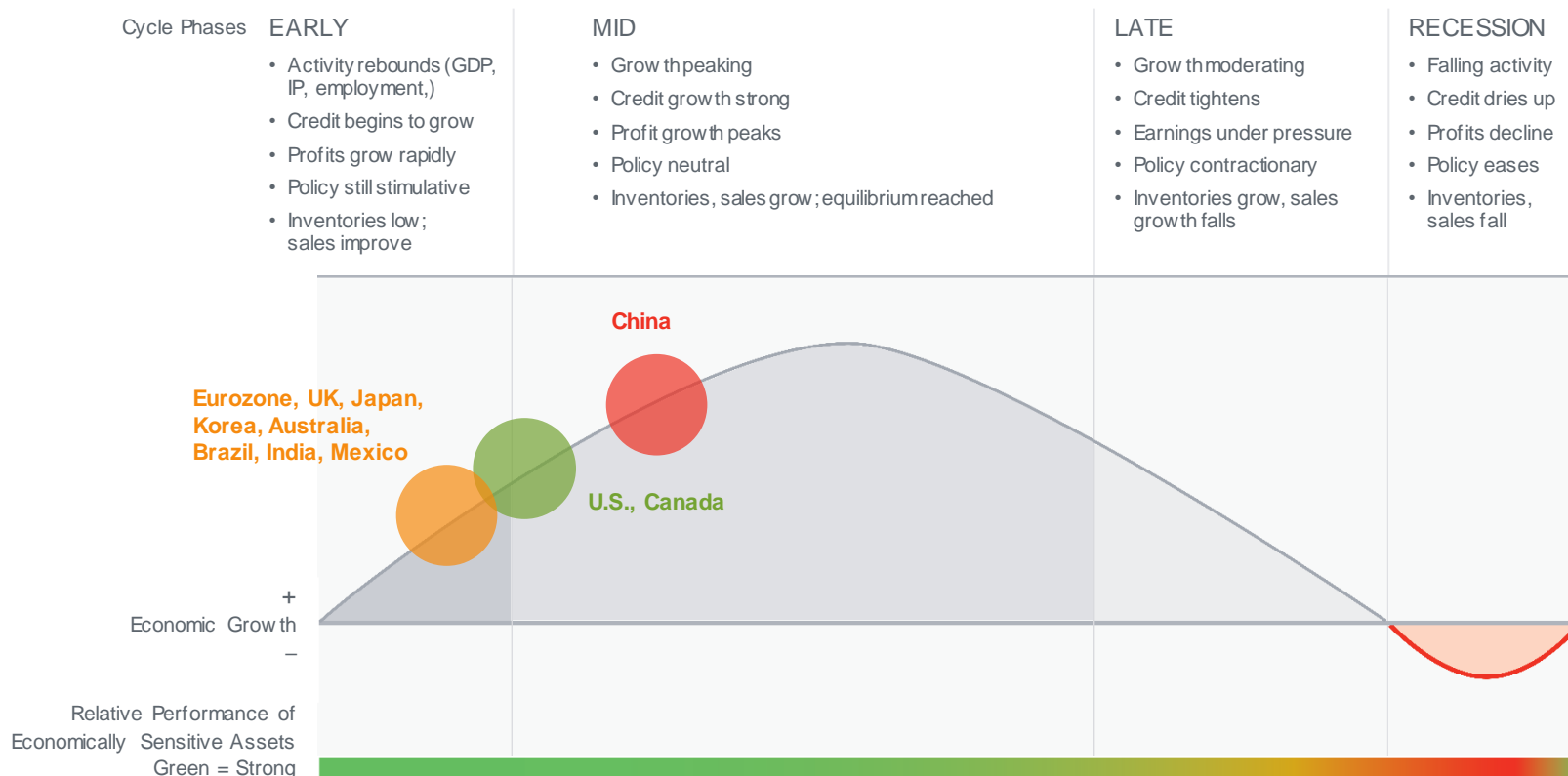
April 16, 2021

Not FDIC Insured • May Lose Value • No Bank Guarantee

Macroeconomic and Current Market Conditions

Global Business Cycle in a Multi-Speed Recovery

Business Cycle Framework



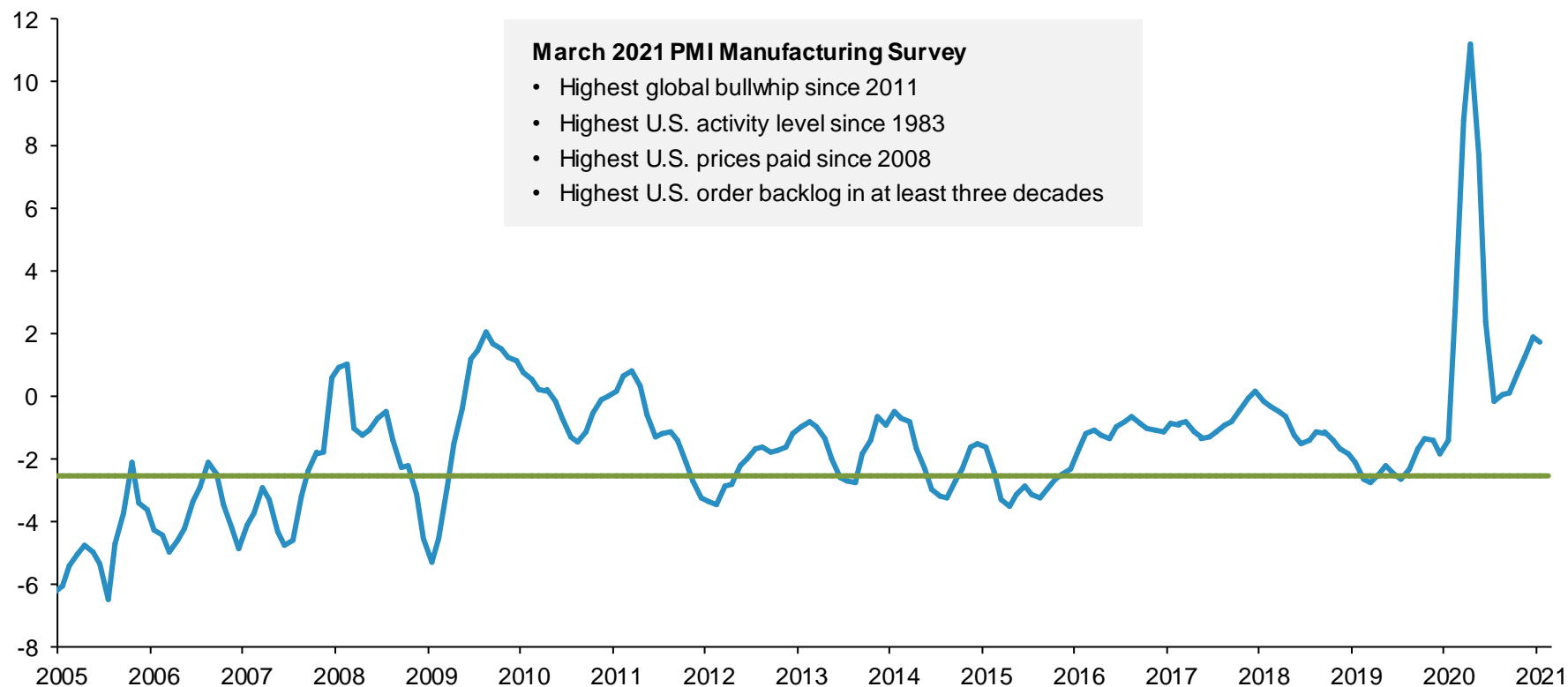
Note: The diagram above is a hypothetical illustration of the business cycle, the pattern of cyclical fluctuations in an economy over a few years that can influence asset returns over an intermediate-term horizon. There is not always a chronological, linear progression among the phases of the business cycle, and there have been cycles when the economy has skipped a phase or retraced an earlier one. Source: Fidelity Investments (AART), as of 3/31/2021.

Booming Global Manufacturing Outpacing Services

Global PMI Activity: Manufacturing vs. Services

— Global PMIs — 2000–2019 Average

Manufacturing Less Services PMI



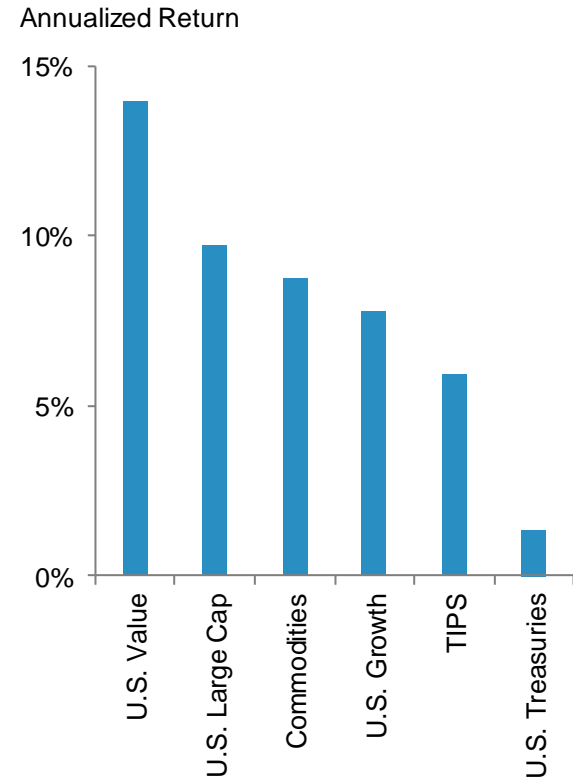
PMI: Purchasing Managers' Index. A reading above 50 indicates expansion. Bullwhip is calculated as new orders less inventories. **CHART:** Three-month moving average. Source: JP Morgan, IHS Markit, Institute for Supply Management, Haver Analytics, Fidelity Investments (AART), as of 2/28/2021.

U.S. Reopening Backdrop May Resemble Postwar Era

Post WW II Analog to COVID-19

	End of WWII	COVID-19
Short Sharp Recession	Sharp manufacturing decline and recovery	
Fiscal Support	Public Debt/GDP surged over 100%	
	GI Bill, Employment Act of 1946	Build Back Better plan
Monetary Accommodation	2.5% cap on 10-year Treasuries	ZIRP, QE, Extraordinary facilities
Repaired Financial System	Banks better capitalized after Great Depression and GFC	
Pent-Up Demand/ Savings Surge	Household savings rates peaked at >20%	
	Shift to domestic spending	Shift to services spending

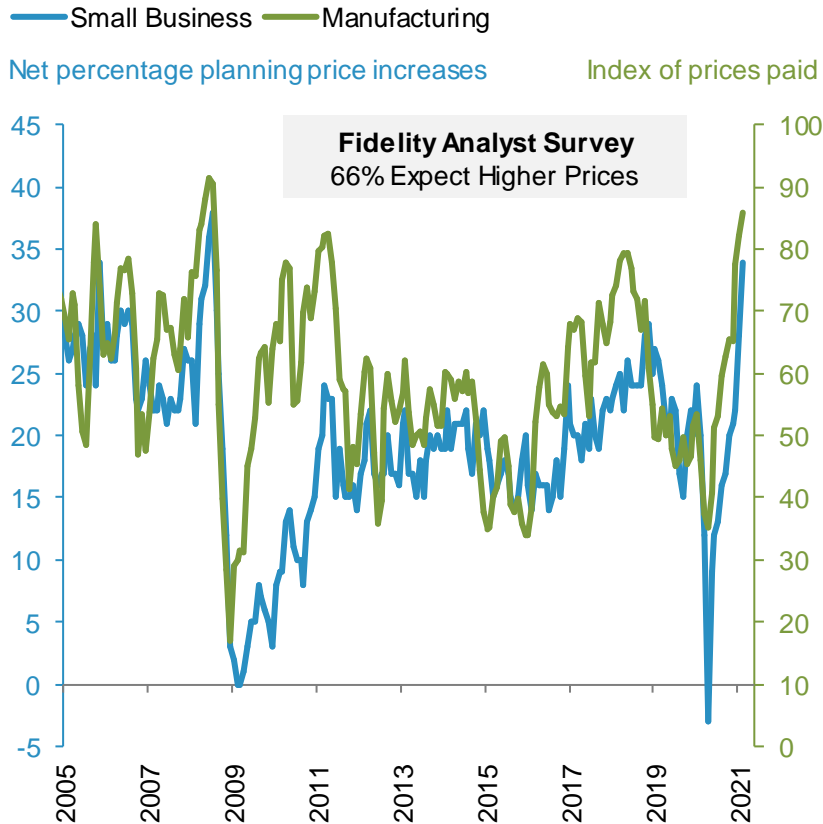
Asset Returns 1946–1950



LEFT: Source: Fidelity Investments (AART), as of 3/31/2021. ZIRP: Zero Interest Rate Policy. QE: Quantitative Easing. **RIGHT: Past performance is no guarantee of future results.** Asset class total returns represented by indexes from Fidelity Investments, GFD, and Bloomberg Barclays. Fidelity Investments proprietary analysis of historical asset class performance is not indicative of future performance. Deep history of TIPS index created by Fidelity Investments. Source: Bloomberg Barclays, Eugene Fama and Kenneth French, Bloomberg Finance L.P., Fidelity Investments (AART), as of 3/31/2021.

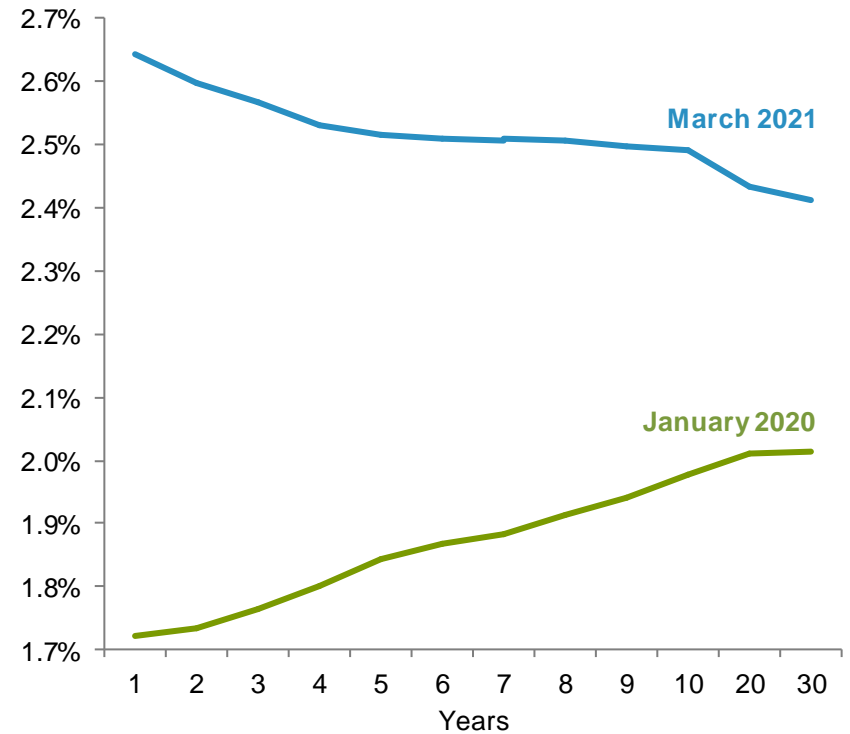
Market Expects Rising Inflation Pressure to be Short Lived

Surveys of Inflation Measures



Inflation Expectations: CPI Swaps

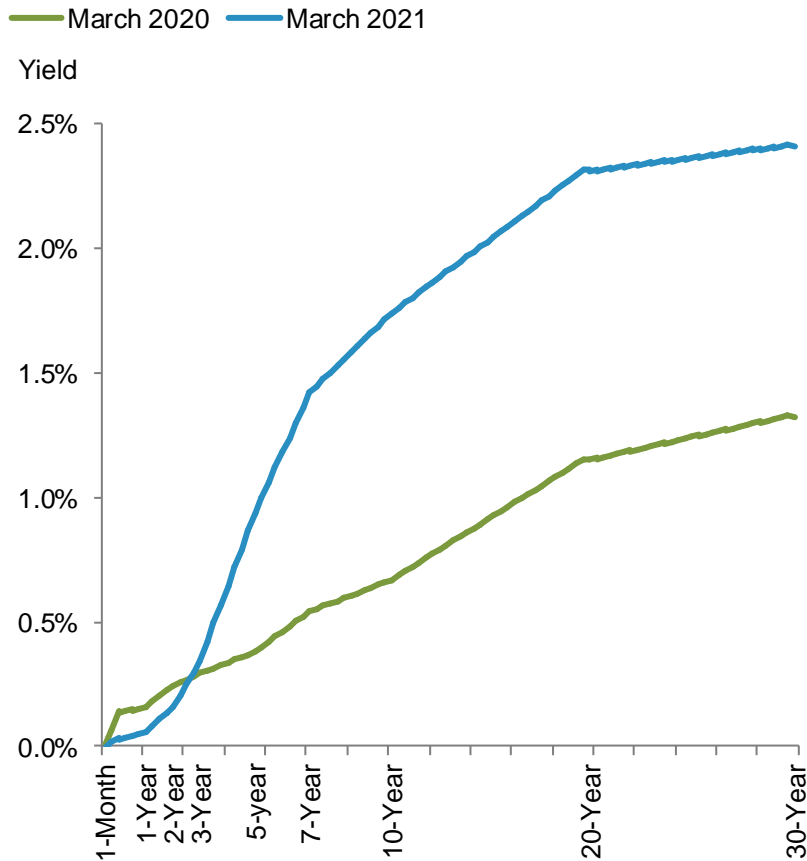
Expected CPI Year-Over-Year



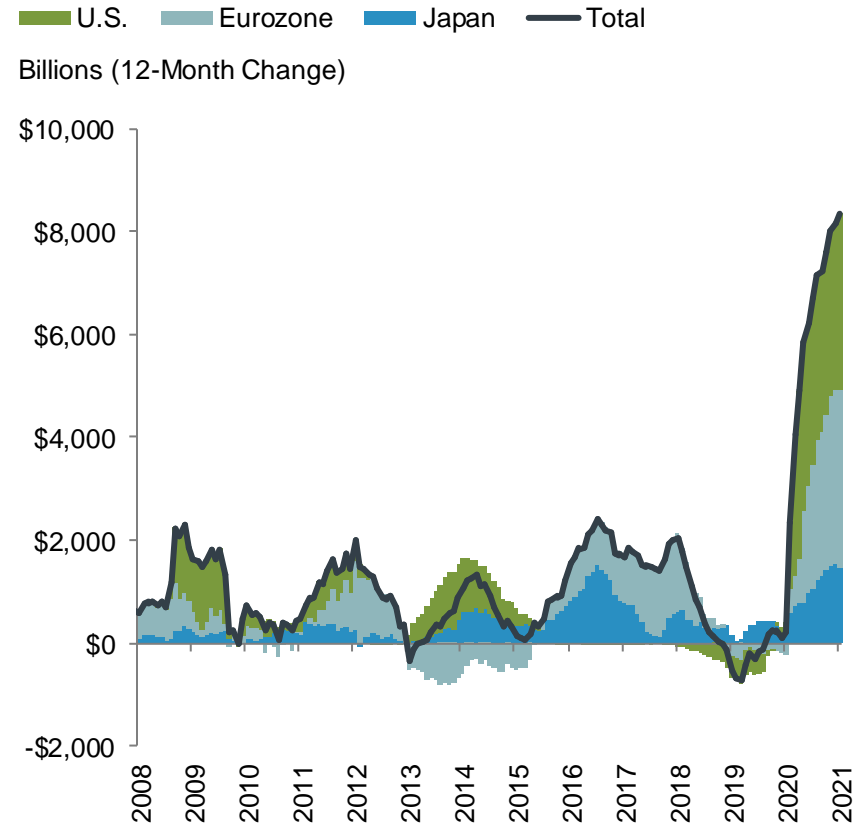
LEFT: Small Business: NFIB planning price increases, Manufacturing: ISM prices paid, Fidelity Analyst Survey: Quarterly survey of fixed income and equity analysts who cover different sectors and regions. Source: Haver Analytics, National Federation of Independent Business, Institute for Supply Management, Fidelity Investments (AART) as of 3/31/2021. **RIGHT:** Inflation expectations derived from USD Inflation Zero-Coupon Swaps. Source: Bloomberg Finance L.P., Fidelity Investments (AART), as of 3/31/2021.

Central Banks Still Accommodative as Longer Yields Rise

U.S. Treasury Yield Curve



Central Bank Balance Sheets



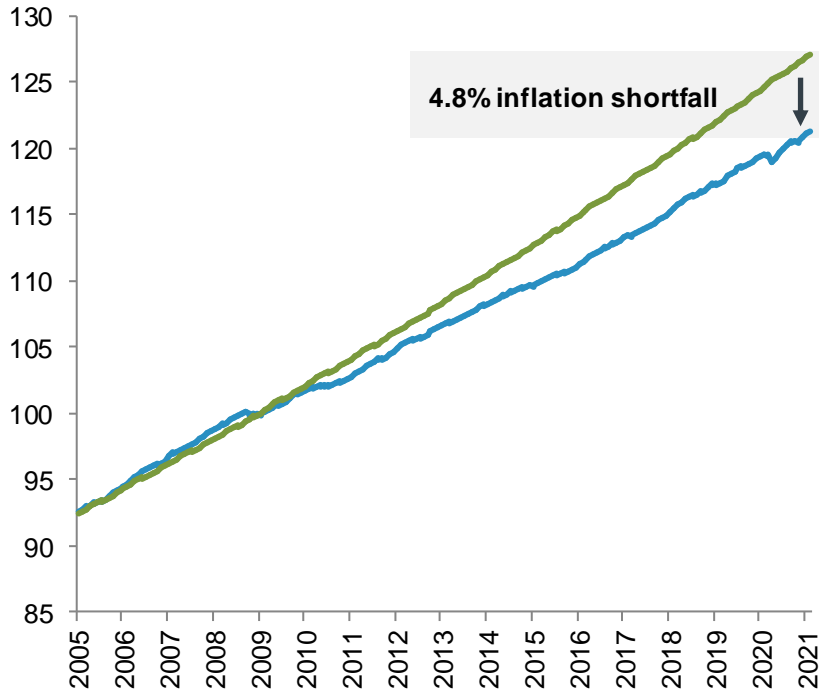
LEFT: Source: Bloomberg Finance L.P., Haver Analytics, Fidelity Investments (AART), as of 3/31/2021. RIGHT: QE: Quantitative Easing. Source: Federal Reserve, Bank of Japan, European Central Bank, Haver Analytics, Fidelity Investments (AART), as of 2/28/2021.

Federal Reserve Indicates It's Not Close to Its Goals

Core Inflation

— Core PCE (Actual) — Core PCE at 2% Inflation

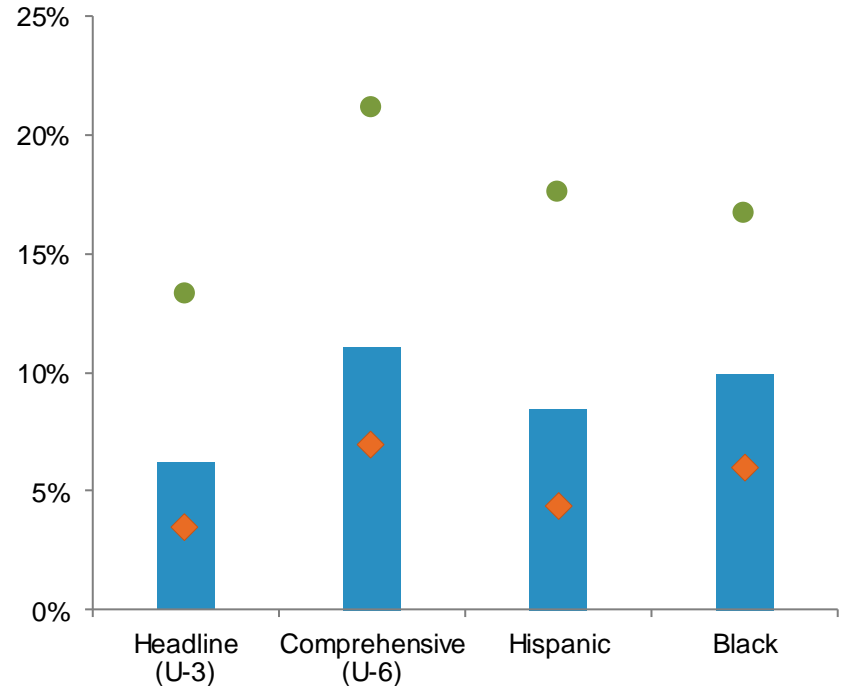
Index: 2009 = 100



Unemployment Measures

■ Feb-21 ◆ Pre-Pandemic (Feb-20) ● Early Pandemic (May-20)

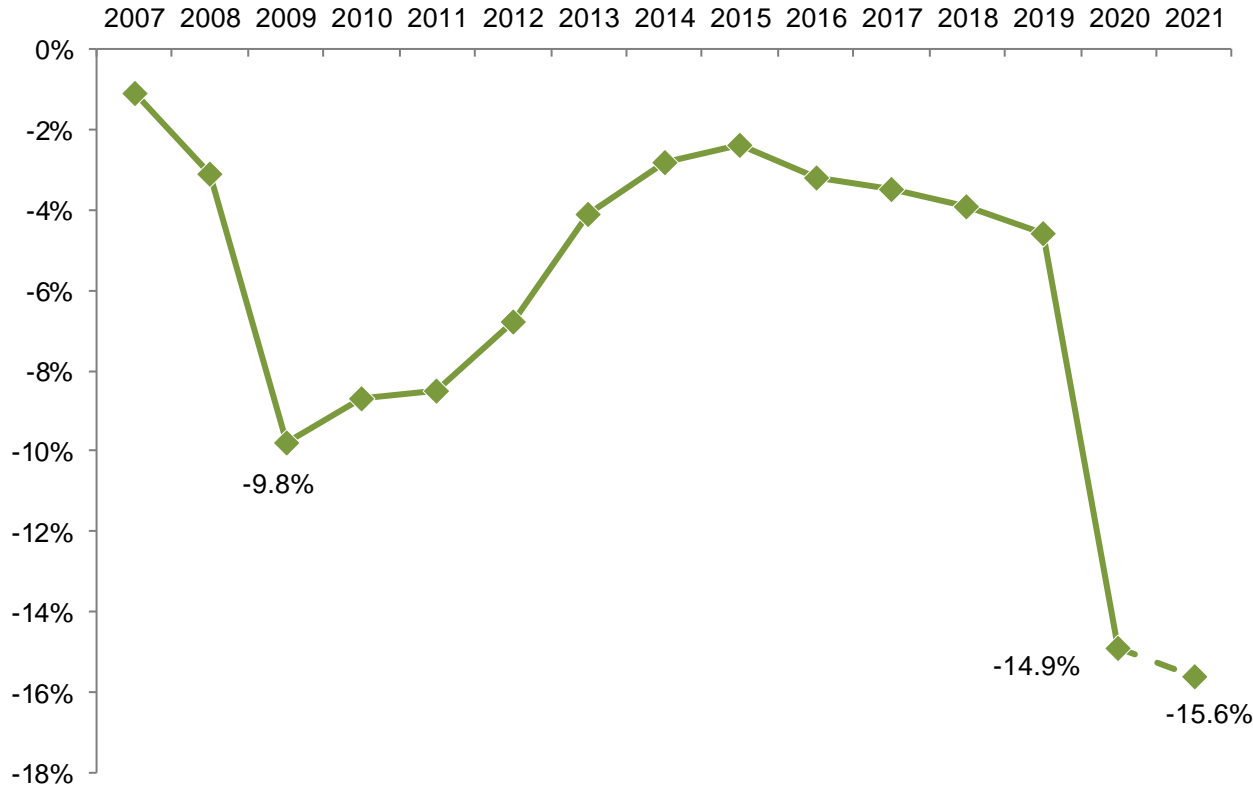
Percent



LEFT: PCE: Personal Consumptions Expenditures Price Index Source: Bureau of Labor Statistics, Haver Analytics, Fidelity Investments (AART), as of 3/31/2021. **RIGHT:** Headline is U-3 Unemployment Rate; Comprehensive is U-6, which is official unemployment plus marginally attached, part-time for economic reasons. Source: Bureau of Labor Statistics, Haver Analytics, Fidelity Investments (AART), as of 3/31/2021.

Fiscal Support May Reach Levels Above Past Recessions

Fiscal Deficit as a Percentage of GDP

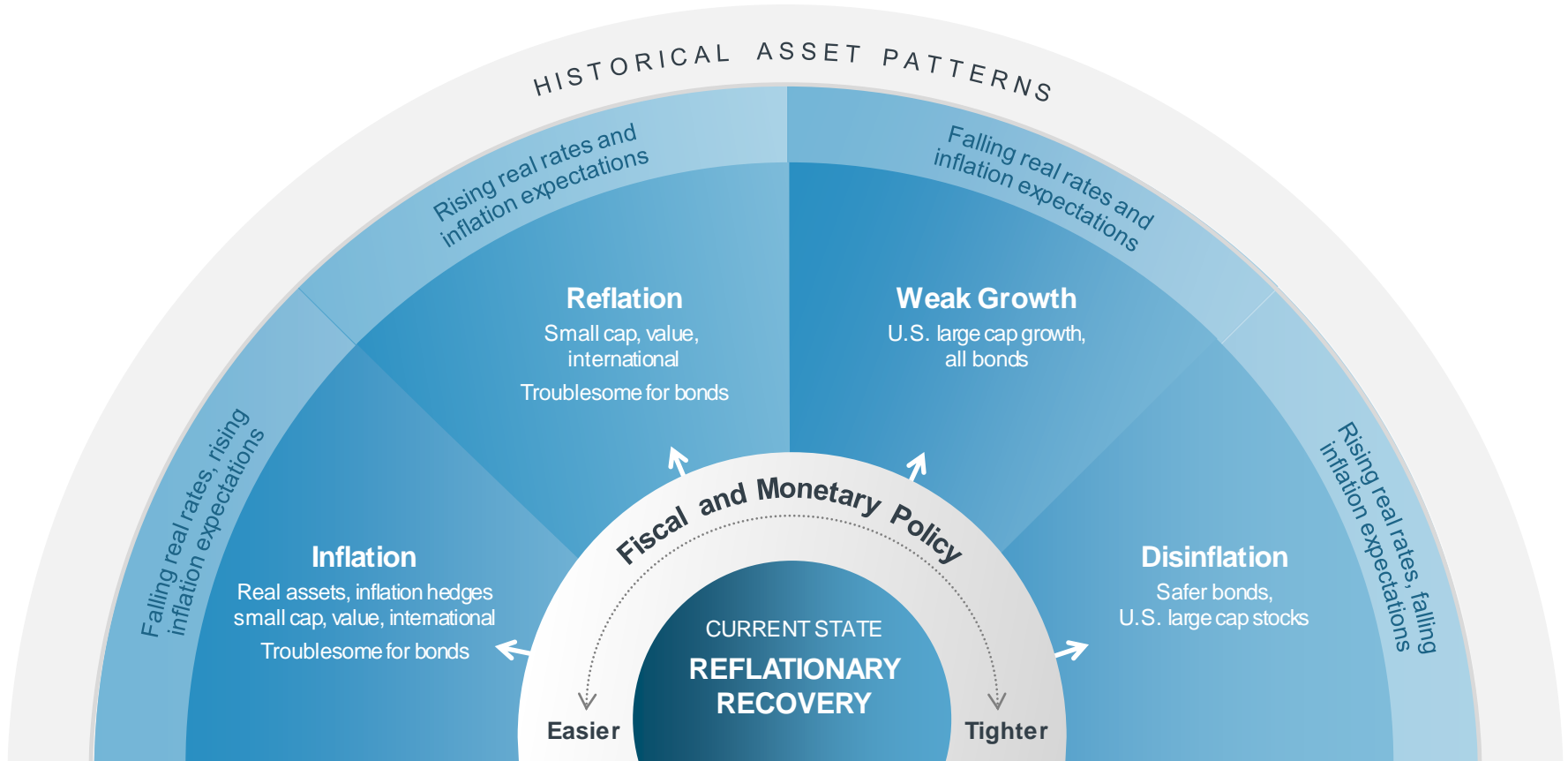


Biden Fiscal Plan (Part One)

	Billions \$	Fiscal multiplier
Spending (8 years)		
Infrastructure		
• Transportation	1,280	1.3
• Electrical grid		
• Broadband		
Manufacturing and R&D	580	1.5
Expand caregiving	400	1.2
Total	2,260	
Taxes (15 years)		
Corporate tax hikes	2,000	-0.3

LEFT: Dashed line projection by the Committee for a Responsible Budget. Source: Congressional Budget Office, Committee for a Responsible Budget, Haver Analytics, Fidelity Investments (AART), as of 3/31/2021. RIGHT: Multipliers are rough estimates based on historical averages. Sources: Congressional Budget Office, Richmond Federal Reserve, Biden Administration's "American Jobs Plan," Fidelity Investments (AART), as of 3/31/2021.

Policy, Inflation, and Rates Critical to Market Leadership

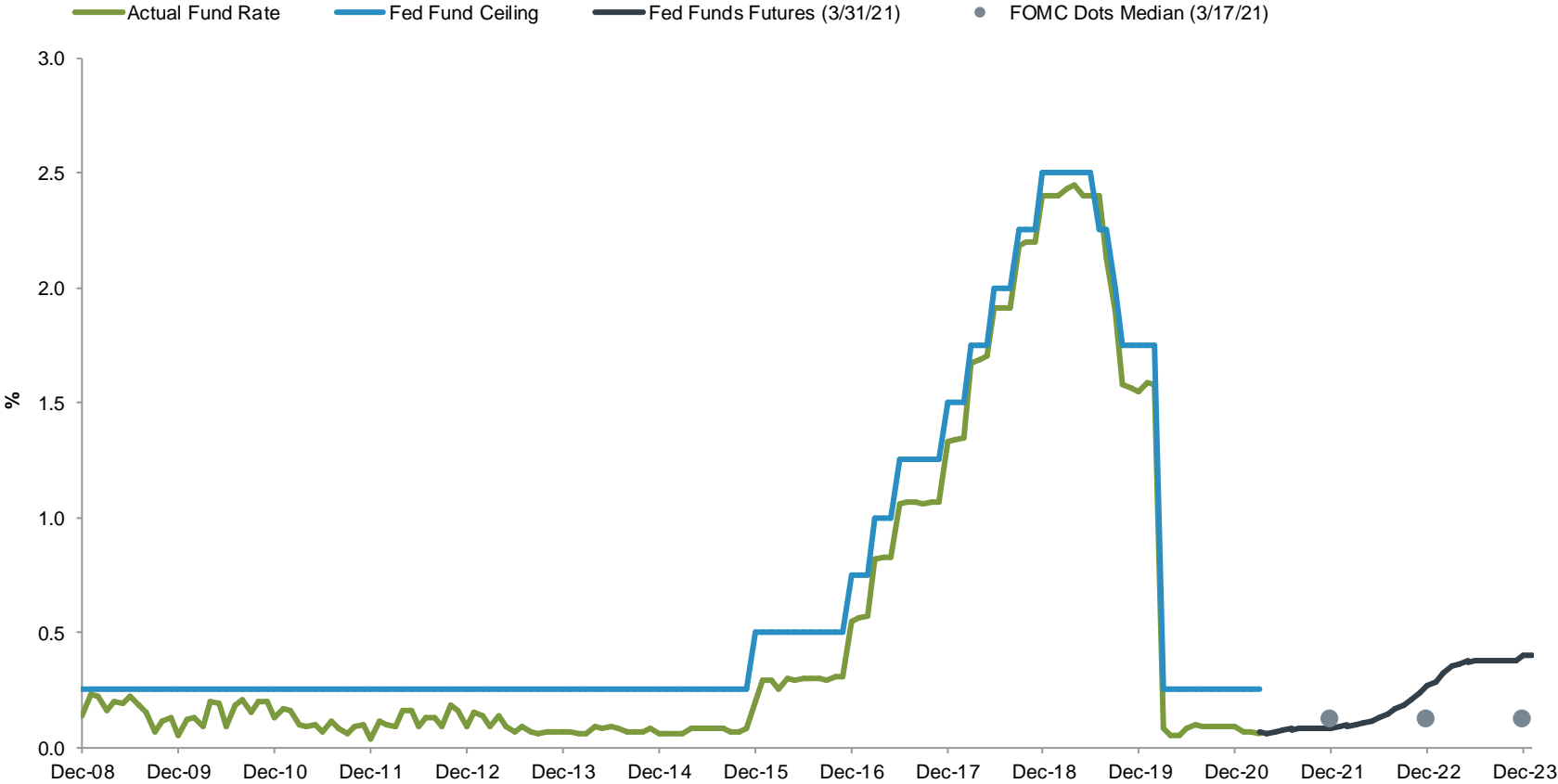


Source: Fidelity Investments (AART), as of 3/31/2021.

The Fed Expects Rates to Remain Near Zero Through 2023

The Fed is targeting long term inflation to guide monetary policy

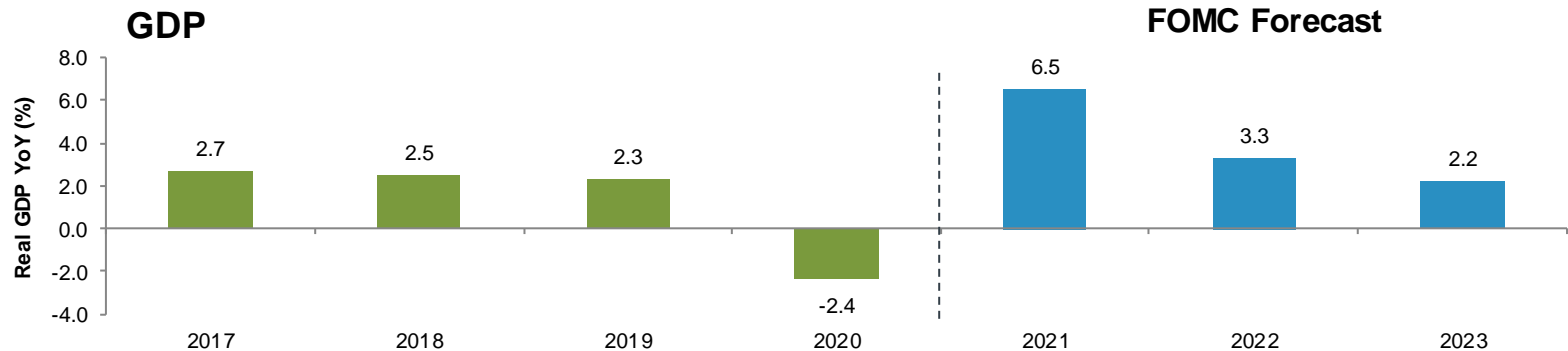
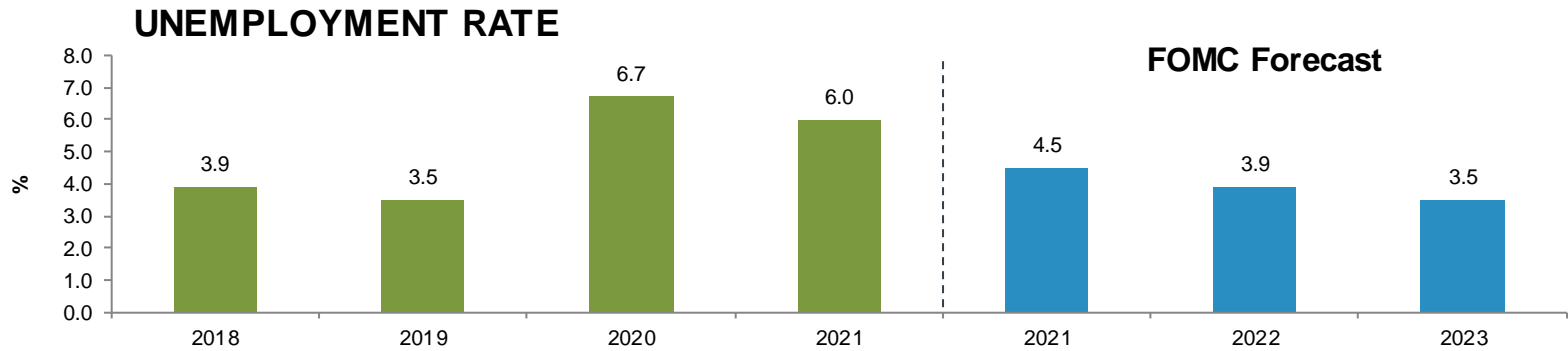
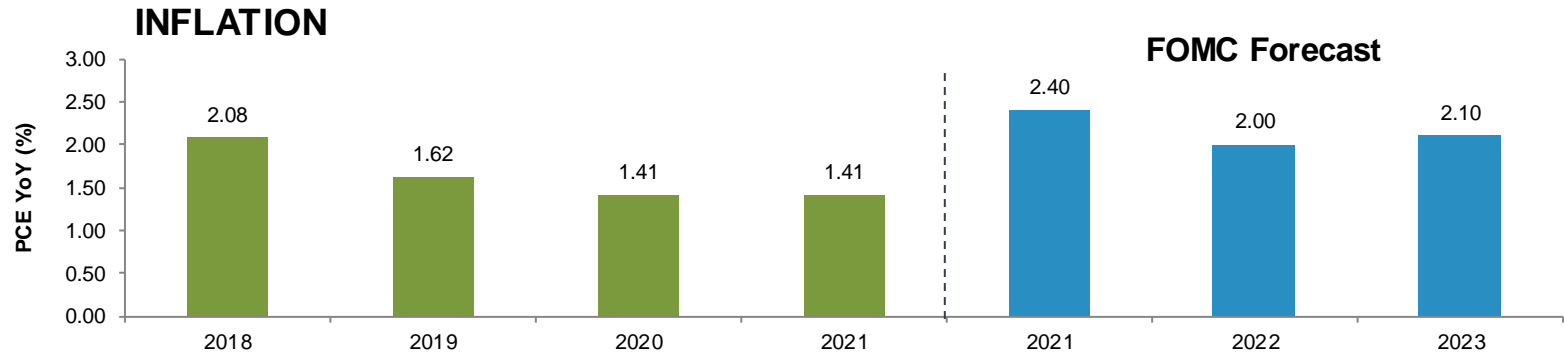
FED FUNDS TARGET, MARKET AND FOMC FORECASTS



Source: Federal Reserve and Bloomberg as of 3/31/2021.

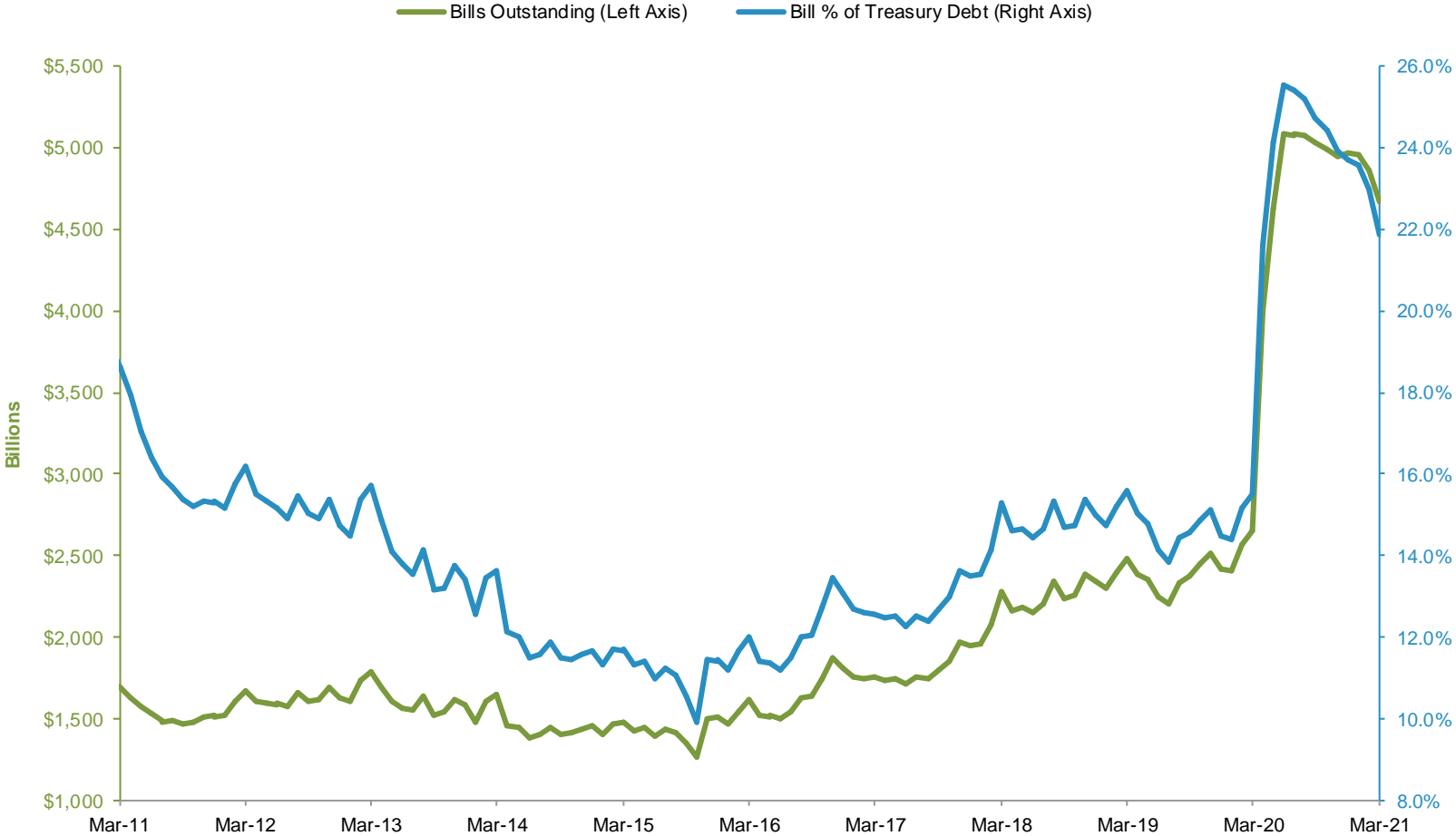


Federal Reserve's Economic Projections



Source: Bloomberg and Federal Reserve.
 Inflation as of 2/28/2021, Unemployment Rate as of 3/31/2021, and GDP as of 12/31/2020. FOMC Forecast as of 3/17/2021.

Treasury Bills Outstanding

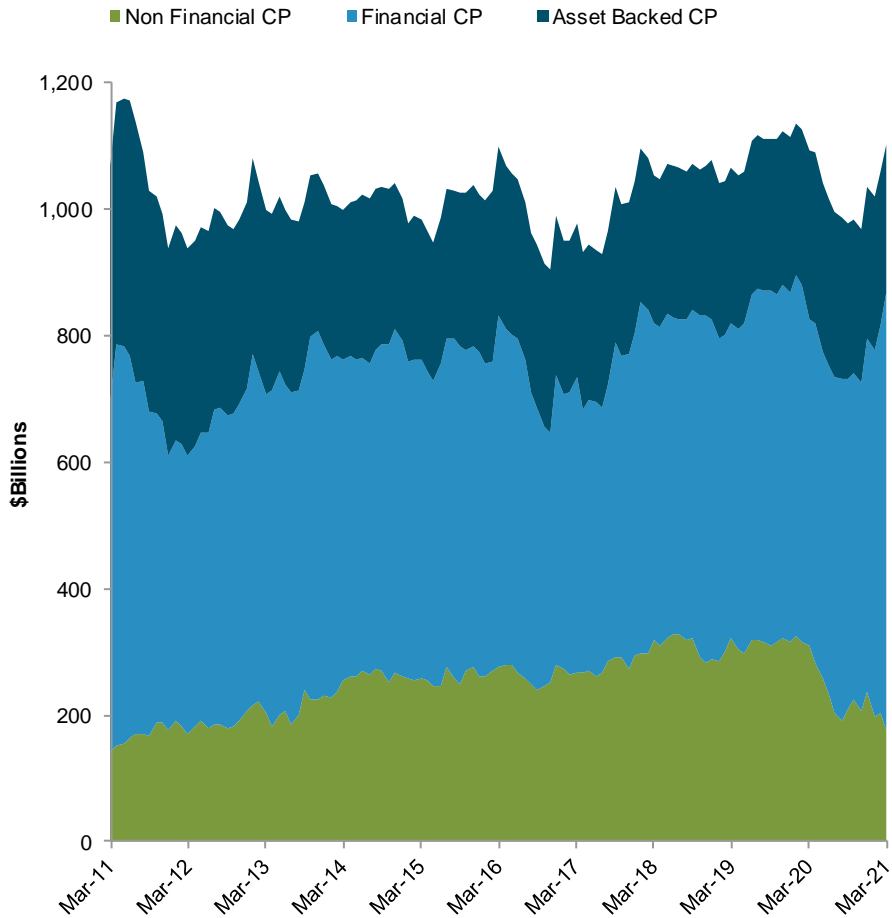


Source: U.S. Treasury and Bloomberg as of 3/31/2021.

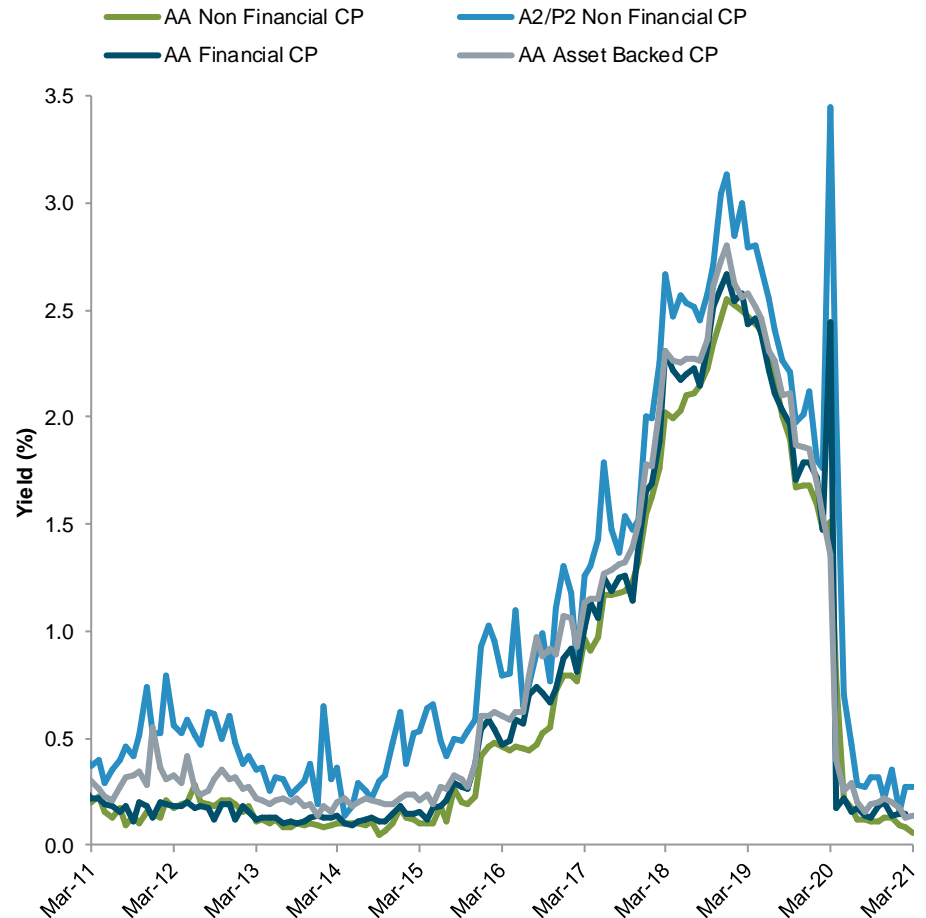


Commercial Paper Supply Rebounds

COMMERCIAL PAPER OUTSTANDING



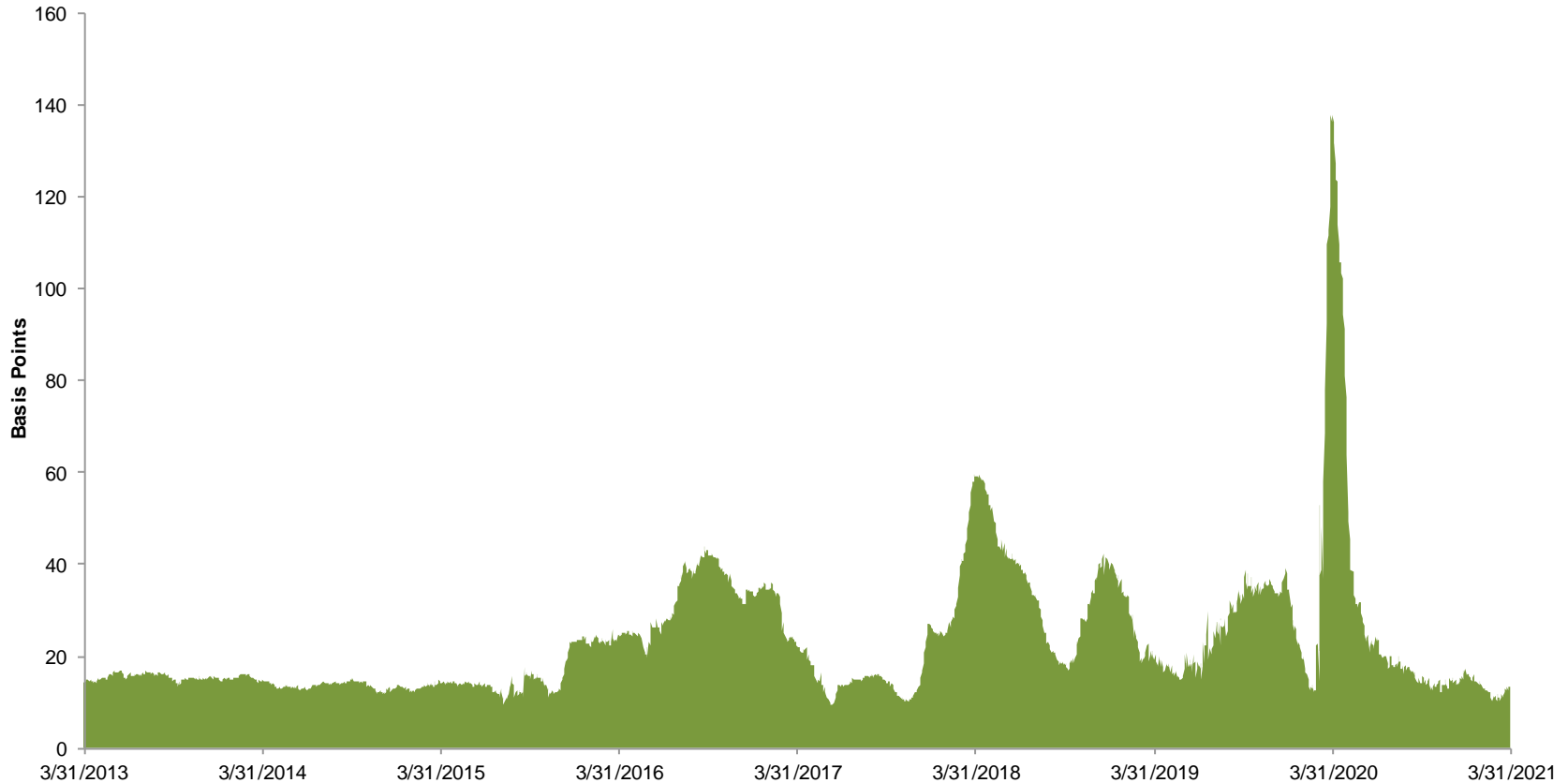
COMMERCIAL PAPER 90-DAY YIELDS



Source: Federal Reserve & Bloomberg Finance L.P., as of 3/31/2021.
 Note: AA Financial CP Yield is as of 2/28/2021.

Spreads at Tightest Levels Since the Start of the Pandemic

3-MONTH US LIBOR OIS SPREAD



Note: Spread represents the difference between 3-Month Libor and the 3-Month USD Overnight Indexed Swap. Overnight Indexed Swap(OIS) is a fixed/float interest rate swap where the floating leg is computed using a published overnight index rate. The index rate is typically the rate for overnight unsecured lending between banks, for example the Federal funds rate for US dollars, Eonia for Euros or Sonia for Sterling.

Source: Bloomberg as of 3/31/2021.



Secured Overnight Financing Rate

- The Secured Overnight Financing Rate (SOFR) is a broad measure of the cost of borrowing cash overnight collateralized by Treasury securities and was first published by the Fed on April 3, 2018.
- SOFR is intended to replace Libor as the standard interest rate benchmark.
- SOFR is calculated as a volume-weighted median of repo transaction data from the Bank of New York and Depository Trust & Clearing Corporation (DTCC) accounting for approximately \$900B+ of average daily transaction volume.

Alternative Reference Rates Committee (ARRC) Paced Transition Plan

2H 2018 Infrastructure for futures and/or OIS trading in SOFR is put in place by ARRC members.

End of 2018 Trading begins in futures and/or bilateral, uncleared, OIS that reference SOFR.

Q1 2019 Trading begins in cleared OIS that reference SOFR in the current (EFFR) PAI and discounting environment.

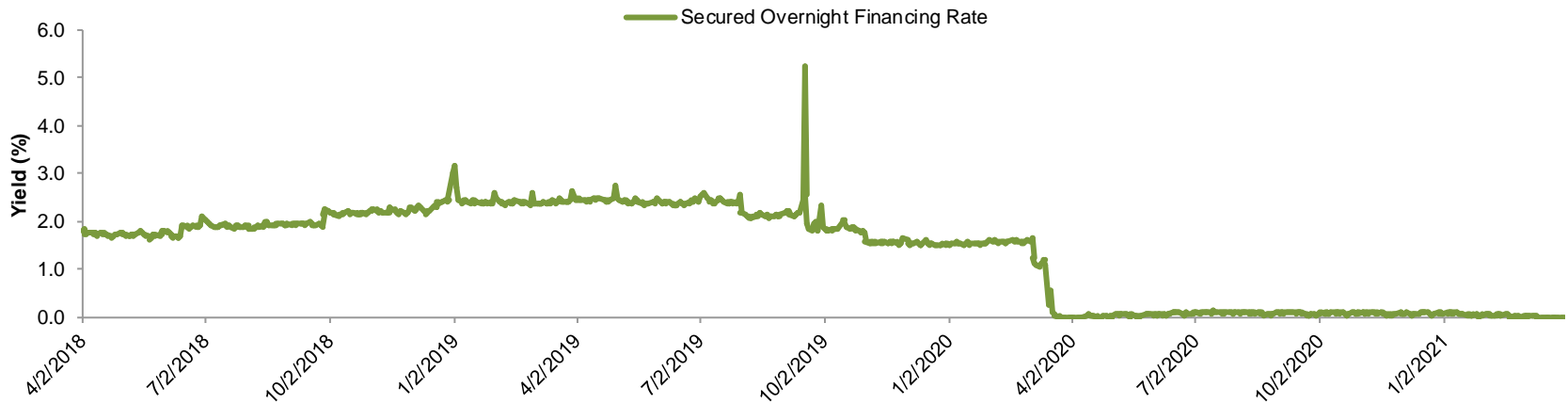
October 16, 2020 CME and LCH will convert discounting and PAI/PAA from EFFR to SOFR on all outstanding cleared USD-denominated swap products. For CME, the conversion applies to all cleared USD interest rate swap products comprising fixed/float interest rate swaps, overnight index swaps, forward rate agreements, zero coupon swaps, basis swaps, and swaptions. For LCH, these products are USD LIBOR, USD fed funds, USD SOFR interest rate swaps, and USD CPI zero coupon inflation swaps. All new contracts after the conversion date will use SOFR for discounting and PAI for both CME and LCH. Additionally, LCH will convert non-deliverable currencies and MXN on this same date while CME will convert non-deliverable currencies and MXN at a later date.

1H 2021 Creation of a term reference rate based on SOFR derivatives markets once liquidity has developed sufficiently to produce a robust rate.

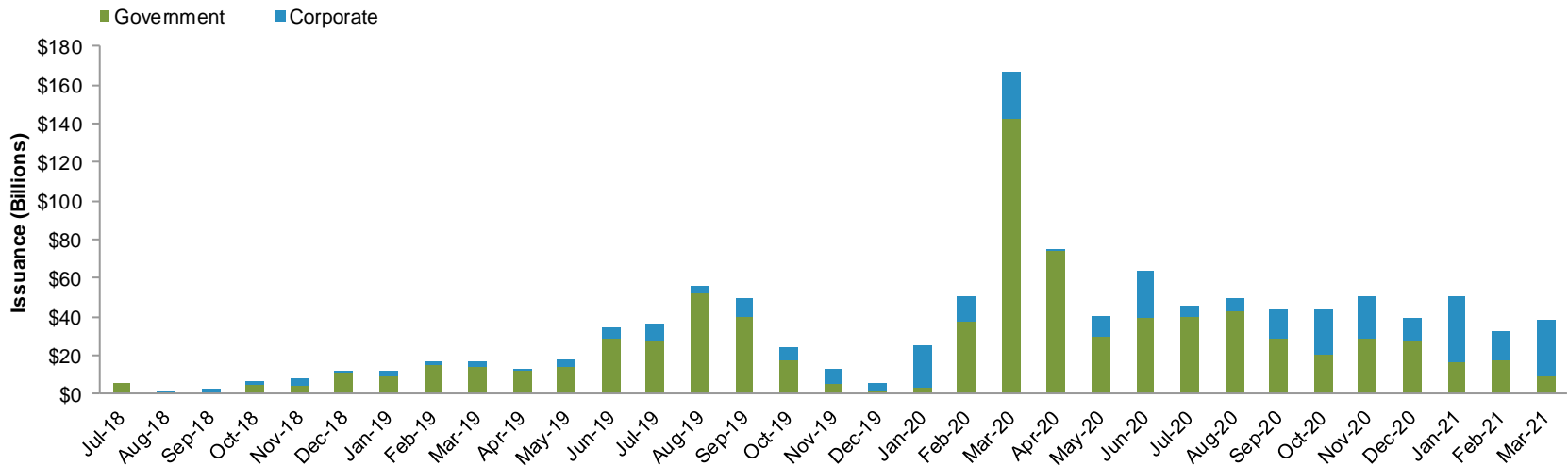
- On March 5th, the UK FCA released an announcement that it will cease publication of 24 of the 35 Libor benchmark settings after December 31, 2021 and 2 more after June 30, 2023.
- 1-week and 2-month USD Libor will cease to exist beginning in 2022, while the overnight and 12-month tenors will cease to exist beginning in mid-2023. 1-month, 3-month, and 6-month tenors might continue to be published on a synthetic basis post June 30, 2023 to assist in the unwind of tough legacy contracts, subject to the FCA's approval.
- Market participants with USD Libor exposures beyond June 2023 that contain the ARRC's recommended fallback language will now explicitly convert to SOFR exposures.
- The March 5th announcement fixes the fallback credit spread adjustment (based on a 5-year median historical look back between Libor and SOFR) that will be added to SOFR on conversion. For example, a floating rate note whose coupons are benchmarked off of 3-month Libor will receive a coupon that is based on a 3m compounded SOFR rate + 26bp post June 2023.

Source: ARRC Paced Transition Plan - Federal Reserve Bank of New York as of 10/19/2020. Financial Conduct Authority as of 3/5/2021.

SOFR Timeline



SOFR ISSUANCE - \$1,149B SINCE JULY 2018



Source: Top Chart: Bloomberg as of 3/31/2021; Bottom Chart: Bloomberg as of 3/31/2021

Investment Strategy and Outlook

Investment Strategy

- Seeking to preserve principal, maintain liquidity and achieve risk-adjusted performance
 - Emphasize fundamental and macro research in formulating portfolio structures
 - Manage weighted average maturities (WAM) and weighted average life (WAL) constraints to enhance NAV stability, liquidity and performance
 - Position portfolios based on our assessment of relative value across the money market yield curve within the context of our approved credits

Outlook

- Global Economy in a Maturing Recovery
 - Most major countries' recoveries should broaden into full expansions as vaccine-related full reopening occurs.
 - The U.S. is progressing toward the mid-cycle phase, with a stimulus and reopening acceleration getting underway.
 - The rate of China's strong economic improvement may moderate as policymakers seek to restrain credit growth.
 - Monetary policy still highly accommodative; rising inflation risks will be a challenge.
- The Fed Maintains Zero-Rate Outlook; Bank Reserves Increase
 - Following the conclusion of the FOMC meeting on March 17th, the Fed held the Fed Funds target rate between 0.00% – 0.25% and continued to predict near-zero interest rates until 2023. The Fed will continue to purchase a total of \$120 billion of Treasury securities and agency mortgage-backed securities per month to help support the economic recovery until "substantial further progress" is made on their employment and inflation goals.
 - The Federal Reserve's Summary of Economic Projections indicates a more optimistic outlook for the economy in 2021 than what was presented by the Fed back in December, predicting a larger increase in GDP growth and a further decrease in the unemployment rate. The Fed expects a short-term increase in inflation to 2.4% in 2021 before falling to 2.0% in 2022.
 - During the month of March, Congress passed the \$1.9 trillion American Rescue Plan which included more than \$400 billion of direct stimulus checks to individuals, the majority of which was distributed in the second half of the month. This, along with a monthly net paydown of nearly \$200 billion of Treasury Bills, resulted in a decline of the Treasury General Account (TGA) and an increase of Bank reserves which combined put downward pressure on money market rates throughout the month.

Appendix

Important Information

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