InPerspective:

TECHNICAL ANALYSIS JULY 2010

Volatility levels likely to remain elevated

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TECHNICAL ANALYSIS AT FIDELITY

At Fidelity, technical analysis provides a tactical perspective that is used to support our fundamental research. Technical insights provide additional information to the investment teams that can be used to corroborate and build conviction in their ideas.

- A value added tactical tool that complements our fundamental research
- Primary goal is to increase the level of conviction in the decision-making process
- Can provide a 'reality check' to the assumptions made by fund managers and analysts
- Provides an element of risk control for our retail and institutional funds

HIGHLIGHTS

Equity markets

- Ongoing worries about a range of factors, including sovereign debt and the health of European banks, have resulted in a surge in volatility and significant declines in equities.
- Investor concerns about a possible 'double dip' recession have been mounting but it is still much more likely that the global economic recovery will be sustained.
- Volatility is likely to stay elevated for some time, but taking a longer term view of history suggests that this is not so unusual, as major downturn periods tend quite often to be followed by extended periods of choppy consolidation.
- The 'Cycle Model' has done a good job of predicting the course of equity markets year-to-date and is now indicating one more major setback around the end of this quarter, setting up a very good buying opportunity that could push markets higher in Q4 and into 2011.

Fixed income markets

- Whether benchmark yields in the US, Germany and the UK can head even lower from already very low levels by historic standards depends in large part on the outlook for growth and inflation.
- A renewed economic downturn and deflation would be good for government bond performance, but a more bearish case is also being made by some who think that inflation rather than deflation is the greater risk.
- Government bonds have benefited greatly from the recent flight to safety, but yields are likely to push higher again as risk appetite bounces back from excessively negative levels.
- However, notwithstanding day-to-day risk aversion-related changes, we don't anticipate a big break out in either direction for yields in the near term.

Commodity markets

- Oil prices have been fluctuating in a broad range of $60-88 for some time. A clear move below $60 would be indicative of a significantly worse outlook for the global economy, with negative implications for risk assets. However, we don't think this a very likely scenario.
- The near-tem technical outlook for gold looks very promising, with the price forecast to rise to $1300-1500 within the next 12 months.

SPECIAL INTEREST TOPIC

- Why the so-called 'death cross' formation does not necessarily spell trouble for equities.

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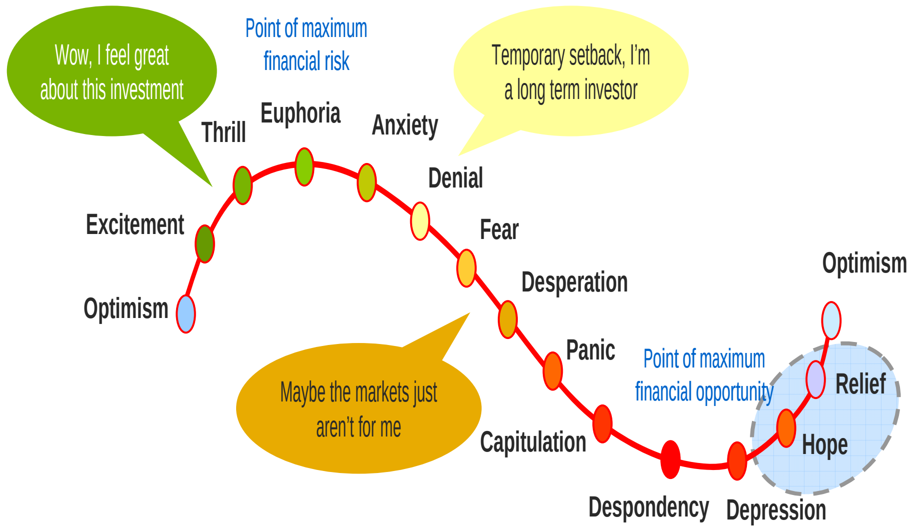
Equity markets

The ‘wall of worry’ is still intact, with increasing talk of a double dip recession, ongoing sovereign debt concerns, uncertainty about Chinese policy and fears about the health of European banks.

All these issues are reflected in increasing market volatility and worsening indicators of sentiment. The key issue will be to what extent various investor concerns materialise and affect the real economy. However, on balance, in our view, the overall global economic recovery is much more likely to be sustained than not. But uncertainty surrounding this is likely to ensure continued volatility in the near term.

THE ‘WALL OF WORRY’ REMAINS VERY MUCH INTACT

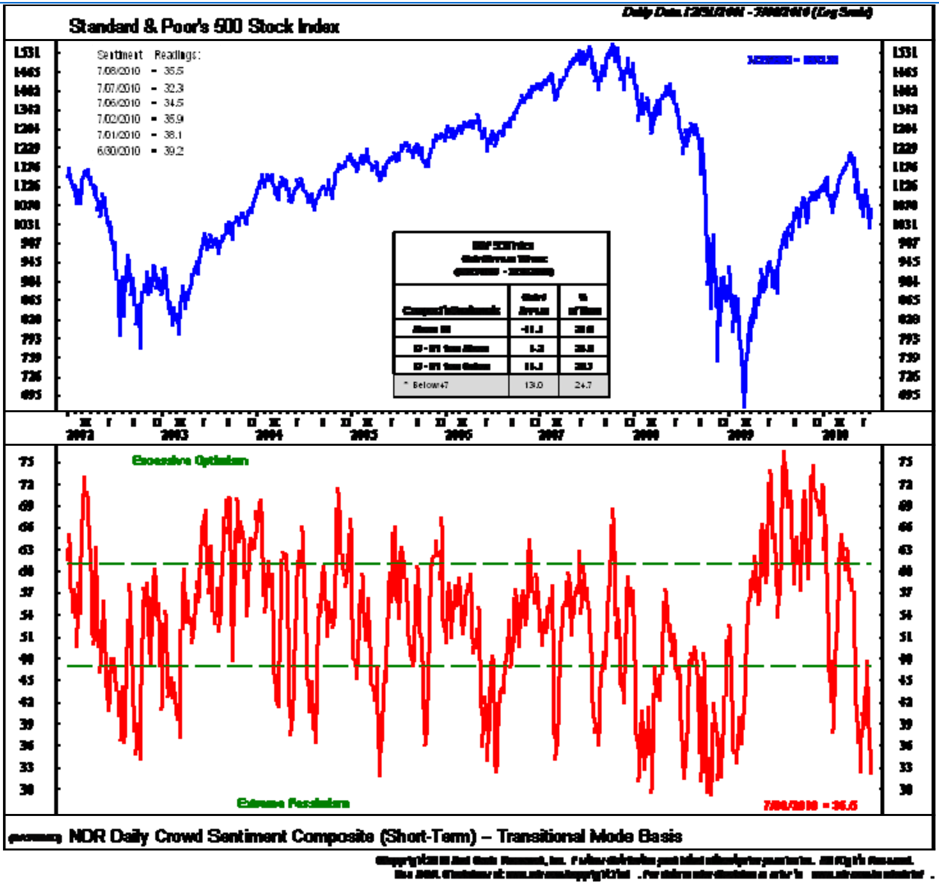


Source: Westcore Funds / Denver Investment Advisors LLC, 1998, FIL

No matter which tactical sentiment indicator was considered (newsletter surveys, extreme volume, volatility spikes, fund flows, flight to safety rallies, etc), equity markets were looking universally oversold in late June, raising the odds of a strong short-term bounce back

We continue to see parallels with 2004, however, when markets, after bouts of high pessimism, eventually pulled out of the TMT bust. However, at present, markets remain in a state of confusion, which will make for continued volatility, including possible new retests of the downside.

EQUITY MARKETS LOOKED HEAVILY OVERSOLD IN LATE JUNE



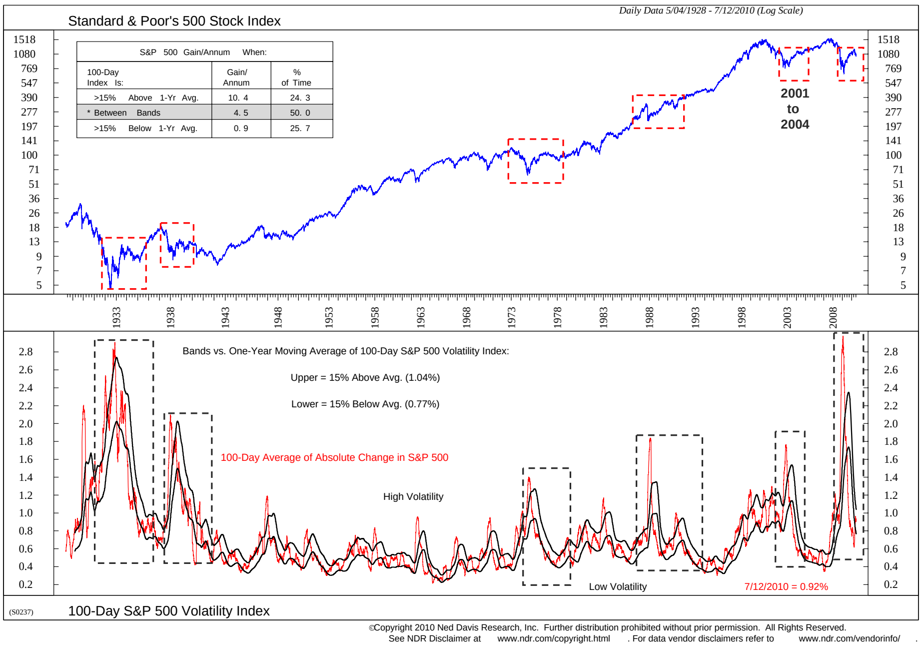
Source: NDR, Bloomberg, as at 08.07.10

Equity markets

The present period of heightened volatility can be very unnerving for investors. However, taking a longer term view of stockmarket history suggests that current patterns are actually not so different from the past.

In particular, the chart on the right shows that crisis periods such as the one which was experienced in 2008/2009, tend to be followed by extended periods of rather choppy consolidation before the return of normality.

CURRENT HIGH VOLATILITY IS ACTUALLY NOT SO DIFFERENT FROM THE PAST



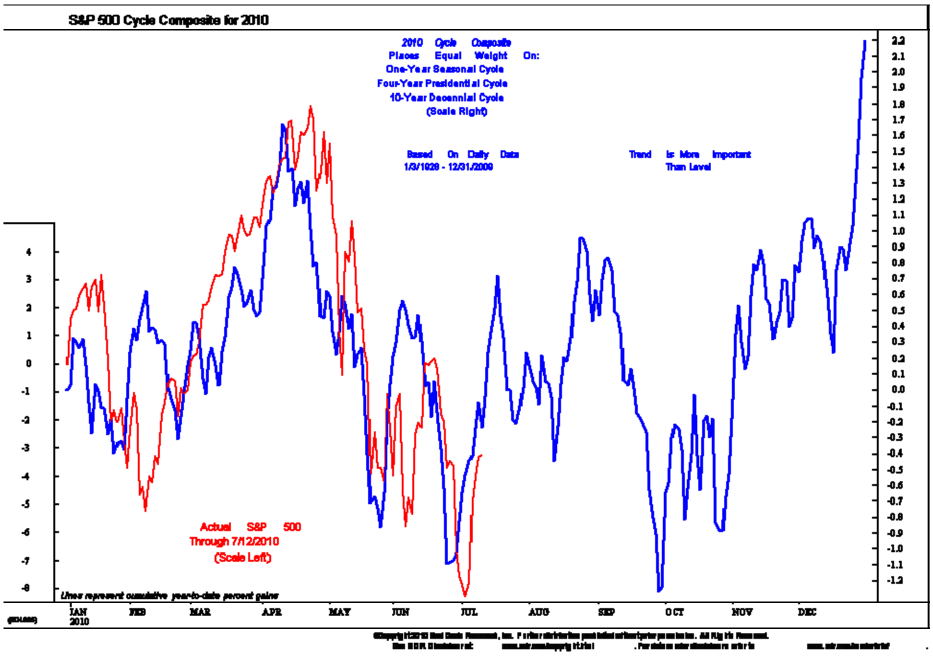
Source: Bloomberg, as at 12.07.10

The performance of the S&P 500 index continues to follow the path predicted by the ‘Cycle Model’, with sharp falls in June leading to the current counter rally in July.

However, the Cycle Model also implies that we will see one more major set back around the end of the current quarter. If the model is correct, then this suggests that there will be a very good buying opportunity towards the end of the current year.

This said, it is important to note that the Cycle Model is based on the very long-term average of past market cycles. As such, it is quite unlikely that future patterns will fit the model’s predictions as well as they have so far in 2010. What we can be fairly sure about, however, is continued high volatility.

THE ‘CYCLE MODEL’ HAS DONE A GOOD PREDICTIVE JOB IN THE YEAR SO FAR

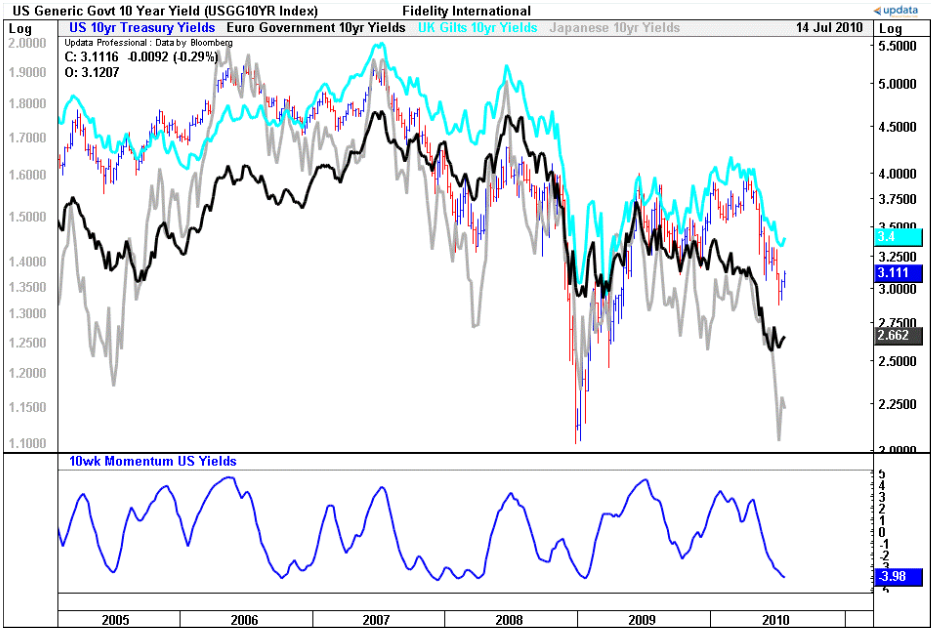


Source: NDR

Bond markets

As the chart on the right shows, government bonds have been among the biggest beneficiaries of the recent flight to safety in May and June. However yields are very likely to push higher again, coincident with equities bouncing back from recent very oversold levels.

GOVERNMENT BONDS HAVE BENEFITED FROM THE FLIGHT TO SAFETY

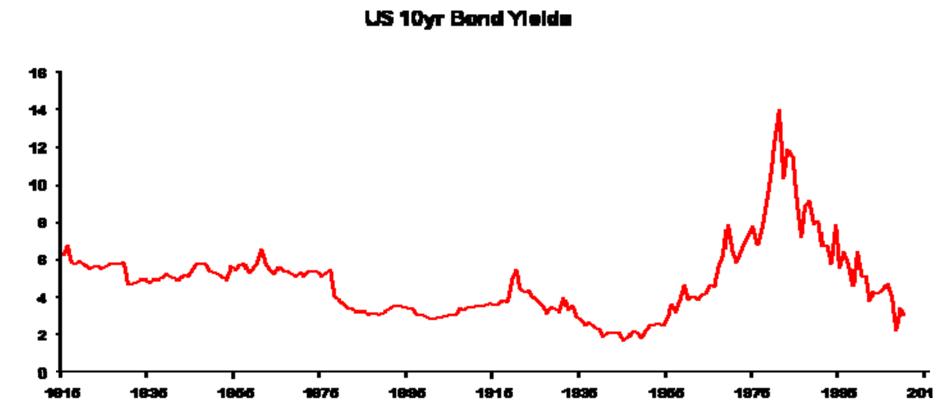


Source: Bloomberg, as at 12.07.10

Government bond yields are now at historically very low levels. Can yields go even lower than this? The example of Japan suggests that the answer is yes. But for this to happen, the US and Europe would probably also have to see Japanese-style deflation. On the other hand, bond market bears believe that inflation is actually the bigger risk in the future, owing to the lagged effects of various central bank money supply-boosting initiatives.

On balance, changes in risk aversion will continue to explain most day-to-day variation in government bond yields and a big break out in either direction seems unlikely in the near term.

YIELDS REMAIN VERY LOW BY HISTORICAL STANDARDS



Source: GFD, FIL

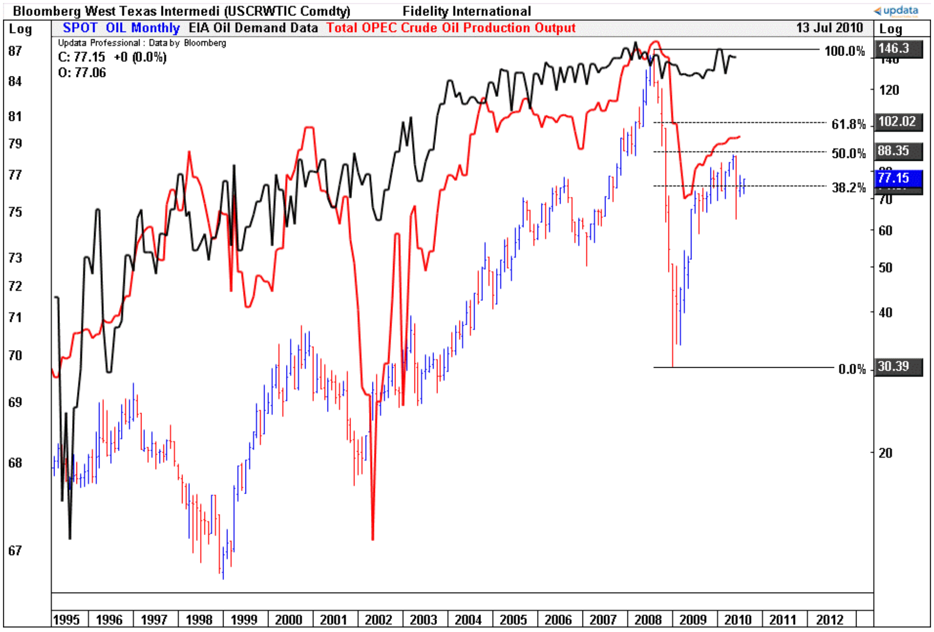
Commodity markets

Since the middle of 2009, the oil price has occupied a rather broad range of $60-88 per barrel. Movements within this have been reflective of changing perceptions about the strength and sustainability of the global economic recovery.

A clear move in the oil price to below $60 per barrel would be indicative of a looming double dip recession in the US and/or unexpected Chinese economic weakness. This would be a very negative development for risk assets, including equities.

However, this is not a very likely scenario at present, with a more positive breakout above $88 per barrel being at least as likely in our view.

THE OIL PRICE HAS OCCUPIED QUITE A BROAD RANGE SINCE MID 2009



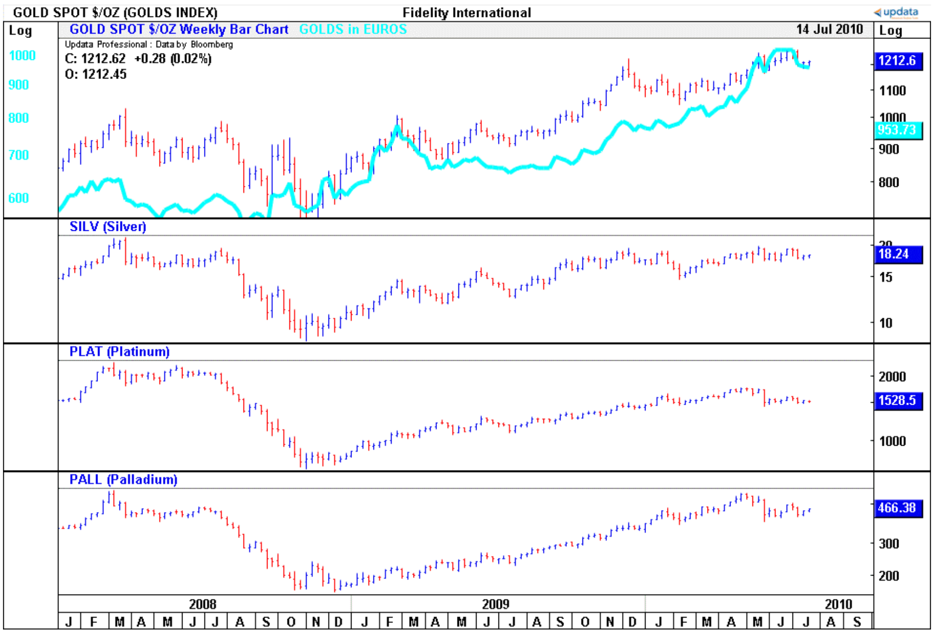
Source: Bloomberg, as at 12.07.10

Despite the recent minor pull back, the short term technical fundamentals for gold look very attractive: we expect to see prices push higher to $1300-1500 per ounce within 12 months.

While gold has traditionally been seen as an inflation hedge, it is also being mentioned increasingly as a potential deflation hedge. This is because in the event of a renewed economic downturn and rising spare capacity it is likely that central banks will seek to increase money supply.

Either way, rising speculative demand for gold, including through physical-backed ETFs, is proving very supportive for the gold price.

THE TECHNICAL OUTLOOK FOR GOLD LOOKS VERY FAVOURABLE

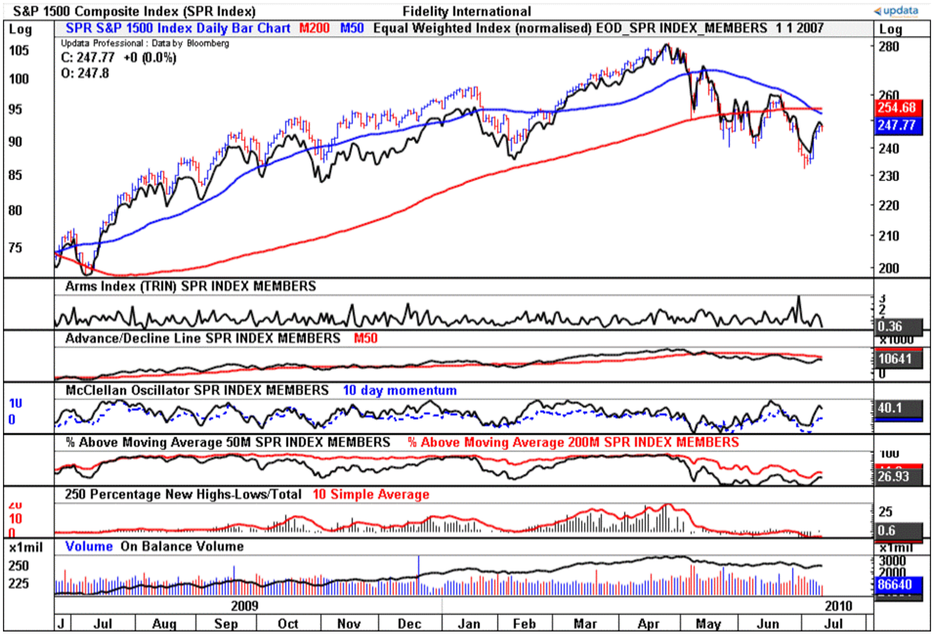


Source: Bloomberg, as at 12.07.10

Special interest: The 'death cross'

Some observers have been attaching great significance to the 50-day moving average recently intersecting the 200-day moving average on the S&P 500 index. This so-called 'death cross' formation is seen as a very dire signal for equity markets.

THE 'DEATH CROSS' IDEA HAS BEEN WIDELY REPORTED….



Source: Bloomberg, as at 12.07.10

However, as the table on the right shows, the actual evidence in his regard is not very conclusive. In reality, it seems that past 'death cross' formations are just as likely to be followed by periods of strong performance as poor performance.

….BUT THE ACTUAL EVIDENCE ABOUT ON THIS IS QUITE MIXED

Dark Crosses*
S&P Composite (1930 to present)

		Nearest Calendar Day After				
	Date	1 month	2 months	3 months	6 months	1 year
1.	2/18/33	6.79%	7.59%	43.62%	70.92%	83.52%
2.	11/29/33	0.91%	13.26%	8.50%	-0.91%	-3.44%
3.	5/8/37	-2.53%	-1.20%	2.83%	-33.01%	-35.96%
4.	3/1/39	-11.57%	-14.49%	-10.08%	-11.02%	-5.04%
5.	2/28/40	-0.08%	-0.25%	-24.36%	-14.65%	-18.35%
6.	11/15/43	1.69%	5.96%	5.07%	6.58%	12.71%
7.	8/22/46	-17.94%	-15.26%	-19.53%	-10.76%	-12.02%
8.	1/13/48	-7.36%	-5.89%	2.34%	12.24%	2.94%
9.	11/20/48	-0.91%	1.11%	-3.85%	-3.91%	4.83%
10.	10/26/56	-3.03%	0.26%	-3.85%	-1.66%	-12.64%
11.	10/30/59	1.32%	3.91%	-4.07%	-5.89%	-7.18%
12.	5/4/62	-13.54%	-14.24%	-12.82%	-11.91%	4.97%
13.	4/28/66	-5.49%	-5.99%	-8.08%	-11.95%	3.16%
14.	3/13/69	3.23%	7.06%	0.26%	-3.58%	-10.70%
15.	9/24/71	-3.11%	-7.97%	2.85%	9.55%	10.09%
16.	4/18/73	-6.89%	-7.12%	-4.65%	-1.37%	-15.03%
17.	12/1/76	4.40%	0.05%	-1.79%	-5.42%	-7.61%
18.	12/13/78	4.82%	2.99%	3.94%	6.51%	12.09%
19.	7/2/81	1.43%	-4.00%	-7.21%	-4.59%	-16.32%
20.	2/3/84	-1.88%	-2.02%	0.18%	0.89%	12.08%
21.	11/18/86	4.22%	13.75%	20.54%	21.06%	3.70%
22.	2/26/90	2.73%	1.29%	9.73%	-2.20%	10.39%
23.	4/19/94	3.15%	2.92%	2.56%	6.27%	14.10%
24.	9/29/98	3.52%	10.93%	18.38%	4.24%	20.91%
25.	11/4/99	4.45%	2.70%	4.53%	3.44%	5.10%
26.	8/18/04	2.47%	1.72%	8.07%	9.72%	11.31%
27.	7/19/06	2.99%	4.64%	8.51%	13.55%	23.28%
28.	12/21/07	-11.72%	-9.56%	-9.07%	-11.21%	-41.28%

* The 50-day moving average is falling and moves below the 200-day moving average

Source: Chart SuperStore

Disclaimer