



Research

COVID-19: Insights Beyond the Curve

Implications for people and investing

COVID-19 has changed the world as we know it, creating uncertainty across global markets, economies, and workforces. The virus is having profound impacts on the corporate world, health care, and daily work and living—with potential implications over the long term on retirement planning, investing, and asset allocation.

Against the growing tragedy of lives lost, millions out of work, and economic hardships that have opened up painful questions about financial wellness, the virus is still rising in many parts of the country as scientists race to develop a vaccine. The U.S. government and the Federal Reserve have undertaken unprecedented stimulus to help safeguard the economy, albeit with trillions more added to the deficit. The presidential election in the fall may determine the future path on health care but, more broadly, how the country navigates out of the global pandemic.

COVID-19 has also become, almost overnight, a powerful disruptor in the adoption of technology. A digital transformation has unfolded in the short time since the virus catapulted into the mainstream in March. The epic movement of the digital transformation has astonished many who for years have watched a slower adoption of technology in some industries. Tech disruptions are likely to happen even faster in a post COVID-19 world.

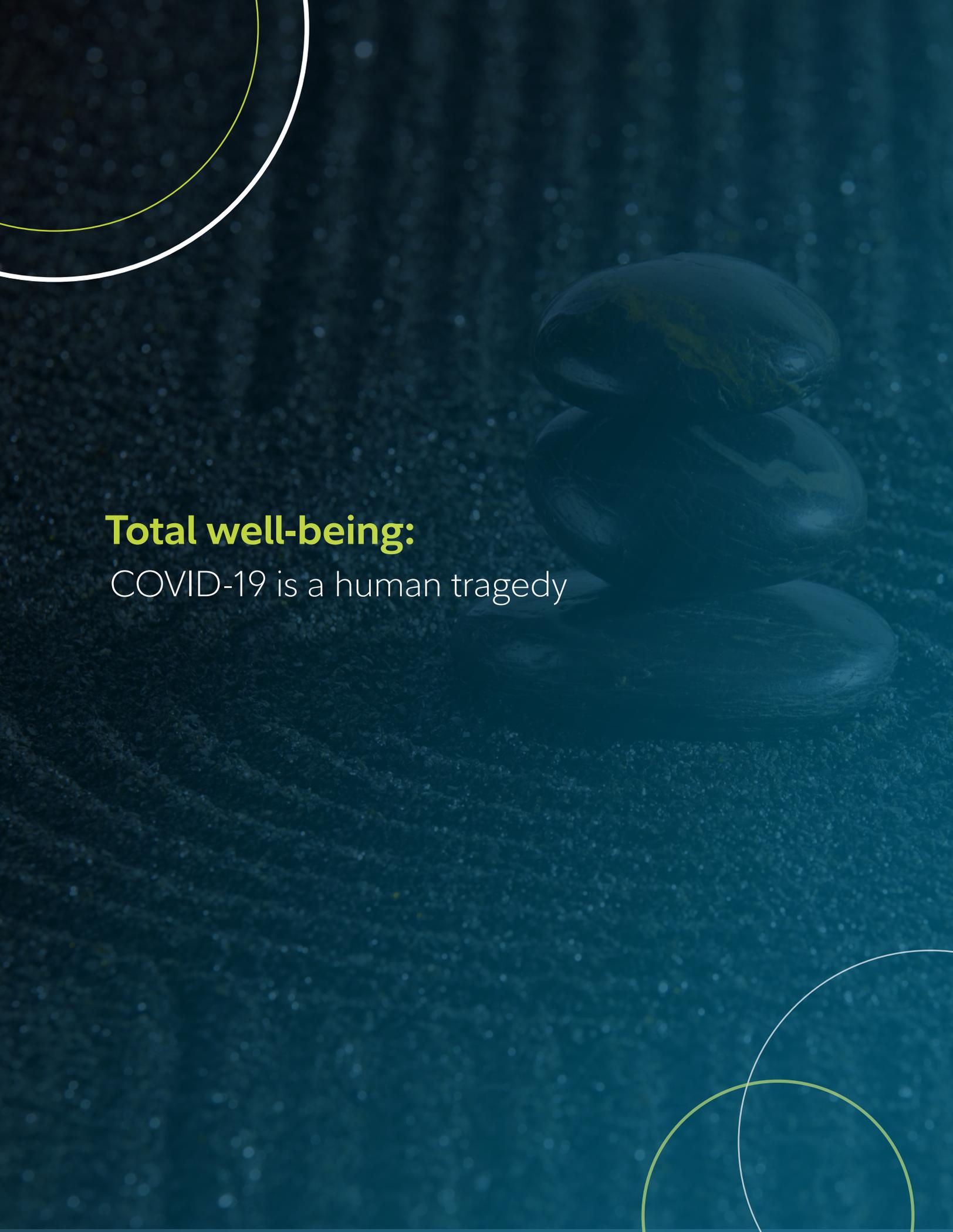
Companies have stepped up with safety and wellness programs to help their workers manage through the pandemic and maintain productivity, even as they face unprecedented challenges such as pension shortfalls, supply chain disruptions, and lower sales. Perhaps just as importantly, companies are focused on all aspects of the “S” in ESG Investing, recognizing that good social policies are no longer a “nice to have” but business critical.

Meanwhile, markets have recovered from a sharp downturn in the second quarter as economic activity came almost to a halt. The long-term implications of the pandemic for the economy, investing, and asset allocation could be profound, as much as these are early days to gauge the effects.

Fidelity has commissioned a panel of experts from across the firm to examine the potential short- and long-term impacts of COVID-19, from investing; asset allocation and the economy; workplace health care solutions; retirement planning; regulatory and policy; its innovation arm, Fidelity Center for Applied Technology; and Fidelity Labs, Fidelity’s in-house fintech incubator. Using proprietary research and analysis, panelists in this report focused on making sense of the pandemic and what it could mean for our customers and clients today and always, seeking to identify the opportunities and potential threats to help them be prepared for whatever is coming.

Among the topics covered in this report

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Total well-being:

COVID-19 is a human tragedy

Just as 9/11 redefined our sense of security and the Great Recession laid bare the fault lines in our economic system, it's inevitable that a crisis as large as COVID-19 will have a lasting impact on our relationships with business, government, and each other.¹

MILLENNIALS AND GEN Z
Younger workers have paid a steep toll⁵



The magnitude of the pandemic stems from the fact that COVID-19 is a particularly human tragedy. The very behaviors that define us as a species—gathering for meals, work, protest, prayer, networking, taking care of sick friends and family, honoring the dead, births, weddings, sports, theater—have now become a threat. Every nation is involved; every person is vulnerable. The universal desire to find the comfort of being together has been replaced by the need to find comfort in separation.²

Anecdotally, we have seen signs of spiraling difficulties from COVID-19: Small businesses shuttered; parents struggling to work from home amid school closures and no day care for their kids; juggling care for older or vulnerable family members; some having to face being in the workplace during the pandemic. Increasingly, we are also seeing the measurable ways that COVID-19 has taken a toll on health, finances, work, and personal life. Fidelity research has shown that mental health in general has declined since the virus has struck. Depression and loneliness surged in May at the height of the shutdown, while anxiety levels remained high, according to a survey.³ About one-third of people are highly concerned about health or finances, with their concerns crossing a broad spectrum of lifestyle factors, short- and long-term job security, and their families' welfare. Those who were least likely to have good mental health, as defined by four measures commonly used in clinical assessments (anxious, depressed, lonely, or satisfied) were 3.75 times more likely to be highly worried about health and finances.⁴

But perhaps the biggest emotional toll thus far has been on the younger cohorts of today's workforce. Millennials and Gen-Zers (those born before and after 1997, respectively) are more likely to have suffered career setbacks, and more likely to be feeling intense negative emotions, according to recent Fidelity research.⁵ About 26% said they have lost their jobs or been furloughed, with 41% reporting financial hardships and 34% suffering health problems.

For employers, the pandemic has illustrated these deep connections between health, finances, work, and personal life, ushering in a heightened focus on mental health in the workplace. Companies have stepped up with a range of wellness benefits to help their workers stay healthy and productive, with many shifting budgets and resources for COVID-19 related needs.⁶ For example, some companies are providing telemedicine for COVID-19 symptom checks, providing extra time off, offering more dependent care coverage, or eliminating some co-payments for high-deductible health plans. A Fidelity survey in April illustrated that 46% of employers were shifting resources and reallocating budgets to address COVID-19 related employee needs, while 31% said they were willing to make investments to ensure safety, wellness, and productivity.⁷ Flexible hours, medical kit distribution, and home-office setups are among the benefits under consideration at many companies.⁸ A minority of those surveyed, just 6%, said they were preserving capital through layoffs and other extreme measures.⁹

COMPANIES STEP UP

Actions in response to the pandemic



Shifting resources and reallocating budgets⁷



Willing to make investments to ensure safety, wellness, and productivity⁷



Few are resorting to layoffs and other extreme measures⁹



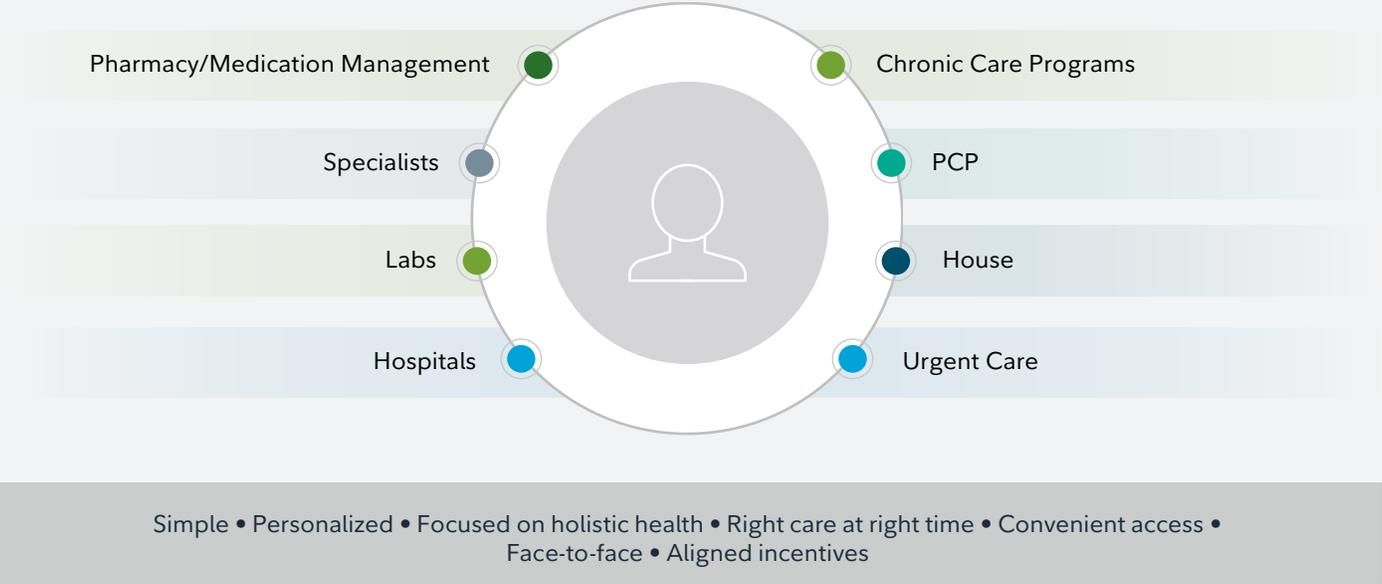
Health care:

Technology is transforming the industry

COVID-19 shed a light on how fragile the health care system is in the U.S., one of the most expensive in the world. Total health care spending in the U.S. totaled \$3.6 trillion in 2018—\$11,172 per person—or 18% of U.S. GDP.¹⁰ Millions of Americans are underinsured or uninsured.

At the same time, COVID-19 is disrupting old models, helping to accelerate certain long-term trends in the industry and opening the door to the rapid adoption of technology. Most notably, telemedicine, once considered an impossibility because of strict HIPAA health information privacy laws and reimbursement challenges, is now becoming routine after the Department of Health and Human Services (DHS) issued emergency waivers to allow for remote treatment during the national health crisis. The DHS now allows once non-compliant tools like Skype® and Zoom® to be used for medical consultations, with Medicare and most insurers even covering the costs of these sessions. If these waivers become permanent it could materially improve health care access around our country.

EXHIBIT 1: COVID-19 may accelerate the move to integrated care, where patients are at the center of the health care service and delivery model.



For illustrative purposes only.

Remote technology is also helping to treat patients who fall ill with the virus. For example, technology is becoming available to send less sick COVID patients home with pulse oximeters to monitor them remotely and keep hospital beds open for older and more vulnerable patients. More broadly, health care innovations are likely to play a key role in helping the world emerge from the pandemic.¹¹ Testing infrastructure improvements will help monitor for outbreaks, innovation may help with faster vaccine protocols, new therapeutics could help treat hospitalized patients, and more investment in life sciences research could usher in the next era of growth in the sector.¹²

The use of technology in health care has changed so much in so short of a time, that it is unlikely to go back to the way it was in the past. In addition, the virus has helped to speed up the transition away from a fee-for-service model to an outcomes-based model that looks at human health holistically. Patients are moving to the center of the service and delivery model, with personalized services and aligned incentives. While we are in the early stages of this change, transformation should ultimately create a better patient experience at lower costs. As the health care ecosystem continues to adopt technology at an increasingly faster pace, it is likely to have a dramatic impact on the industry as a whole.

Finally, with nursing homes so hard hit by COVID-19, many people are likely to be reconsidering where they spend the latter years of their lives, opting to remain at home. The pandemic has broken open glaring funding and operational failures within the long-term care system in the U.S., and a migration to home care could have widespread consequences for health care spending and insurance. New living arrangements may emerge into the mainstream, such as the village model, a grassroots movement where smaller groups of elderly form their own microcommunities run by volunteers and paid staff.¹³

The image features a deep blue background with a perspective of a digital tunnel. Numerous lines of binary code (0s and 1s) and data streams radiate from a central vanishing point, creating a strong sense of depth and movement. The lines are composed of small, light blue dots and dashes. In the upper left corner, there is a large, thin white circle. In the lower right corner, there are two overlapping white circles of varying sizes. The overall aesthetic is clean, modern, and high-tech.

**Digitization unleashes
dramatic change**

A swift technological transformation has had profound implications for employees, companies, and their customers.

The longstanding debate about productivity in home offices has seemingly been answered, with tools like Zoom®, Slack®, and Google Hangouts® allowing for face-to-face meetings and virtual sales visits. About a third of the country is working from home, as discontinuous change is redefining what it means to go to work. Companies are focused on creating a digital version of water cooler “creative collisions,” with managers scheduling regular drop-in “office hours” to encourage a free exchange of ideas and concepts.

COVID-19 in a short period is refocusing technological, economic, and sociological developments in experience design, market leadership, and value reorientation.¹⁴ The months since the pandemic struck have reminded us that we are a highly adaptive, creative, and determined species. When confronted with a disaster, we push hard to find or fabricate what we need. Whether it requires retooling manufacturing plants, experimenting with new therapies, transitioning to remote work and education, or relaxing regulations to give more people access to primary health care, we are, to paraphrase one British medical doctor, witnessing “10 years of change in one week.”¹⁵ Though the pandemic poses a grave challenge, it also offers opportunities for growth and innovation. For example:

Experience design. The kinds of experiences customers expect and often prefer will change, with remote, touchless, and automated interactions gaining momentum.

Market leadership. Smart incumbents will position themselves to emerge from the pandemic even stronger by ramping up hiring and innovation efforts.

Value reorientation. The urgent need for credible diagnostic tests gives consumers a strong incentive to reevaluate the trade-offs they’re willing to make between privacy and safety. And for Gen Z, coming of age in a pandemic will interrupt their plans and shift their values.

SOME INVESTMENT IMPLICATIONS OF THE DIGITAL WAVE

- Potential for accelerated adoption of digital payments and digital currency launches.¹⁶
- Mature fintechs and big tech may look to dip into their cash balances to scale up, to fill in product gaps or gain an edge against competitors.
- The video communication field could see gains, along with a jobs boom.
- Changes in consumer behavior and a shift away from in-person experiences (movies, shopping, socializing) could result in more data needs and a growth in cloud computing.¹⁷
- 5G wireless technology could aid in the digital transformation and greater data needs, while growth in e-commerce could help consumer discretionary companies.¹⁸
- The work-from-home boom may lead to growth in IT firms and software companies.¹⁹
- Meditation app usage has surged 40% since the pandemic, as consumers look for ways to manage their mental health.²⁰
- Commercial real estate may experience a structural shift as companies rethink remote work for the long term, while fewer commuting and using mass transit could result in changes for energy.
- The global online education industry is likely to reach \$350 billion by 2025, driven by school closures caused by COVID-19.²¹

The Human Lens of Remote Work

Some anthropological, social, and behavioral themes are arising in the new experience of remote working





**Good corporate citizenship—
front and center**

Corporate social policies, or the “S” in environmental, social, and governance (ESG), illustrate how well companies manage relationships with employees, the communities they operate in, and the political environment.²²

The COVID-19 crisis has showcased how many U.S. companies have stepped up to focus on the safety and welfare of their employees, their approaches to managing their workforces and investing in new talent, and their renewed focus on improving corporate diversity and income equality. Social and political issues have come to the fore in a way they haven’t before for companies, showing increasing accountability to society to protect against reputational fallout and attract the next generation of socially-minded talent. For example, one large apparel company decided to pay its employees throughout the shutdown rather than furlough them as seen across the retail sector, and also sent frontline health care workers gift packages with some of its clothing products. Another company in financial services pledged \$1 billion to provide telemedicine to communities of color, partner with black colleges, invest in affordable housing, and support minority-owned businesses.

Companies are also recognizing that current inequities in the working world are incompatible to long-term growth and have focused on aggregated work-life balance, culture/values, compensation/benefits, senior management sentiment, and career opportunities.²³ Fidelity has seen an outpouring of corporate responses on income inequality and diversity as the pandemic disproportionately affects minorities and women.²⁴ Fidelity believes these companies will be most resilient in their ability to innovate, their approach to human capital management and their investment in new talent, and the flexibility of their supply chains. All of these factors are critical to long-term profitability and return to shareholders.

THE “S” IN ESG:

- Diversity and inclusiveness
- Political and social policies
- Investment in new talent
- Flexible supply chains
- Safety and wellness programs

EXHIBIT 2: Longstanding income inequality between top wage earners and the rest of the workforce has become top of mind for many companies in the aftermath of COVID-19.

Growth in Average Income, Top 1% Compared to Bottom 20% Before-Tax Income



Source: Inequality.org. As of December 2016.

**Retirement planning
amid economic hardship**



Financial wellness gets tested

Many employees as of this writing are still working from home, with some furloughed and facing the stark reality that crisis-level unemployment could become permanent. The unemployment rate was at 10.2% as of the end of July, with 16.3 million jobs lost since February and an additional 9.2 million on temporary layoffs.²⁵ Economic hardship has opened up painful questions about financial wellness, the ability to save, and having an adequate cash safety net for emergencies.

Saving for retirement

Fidelity's recordkeeping data representing more than 25 million participants shows that most are maintaining contribution rates and asset allocations.²⁶ Decreases or stops in contributions to defined contribution plans rose slightly at the height of the crisis in April but subsided as of early May, according to the data. While the majority of customers did not remove funds from their accounts, about 7.2% of participants made withdrawals during the second quarter, vs. 6.8% during the same period in 2019. Most withdrawals made during that period were to take advantage of

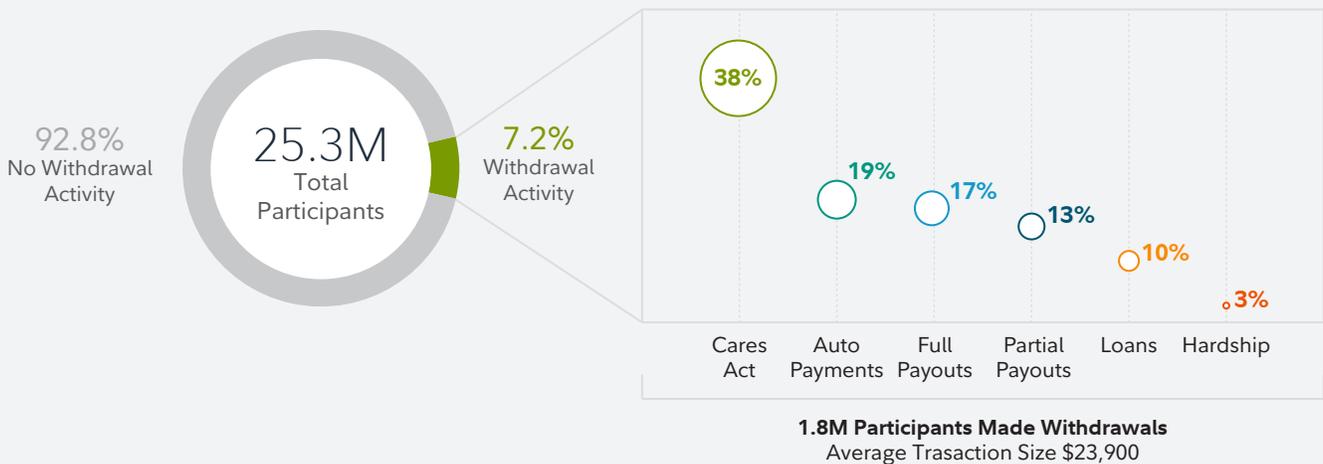
provisions in the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) that provided expanded distribution options and more favorable tax treatment. Withdrawals were higher in harder-hit areas of the country, such as the southeastern states, and in certain industries, such as transportation. Notably, about 60% of participants on Fidelity's platform are in target date portfolios, a do-it-for-me option that defers investment decisions to a professional money manager, making them more likely to stay the course during times of market volatility.²⁷

Retirement decision-making

Health and lifestyle factors are stronger considerations than reaching a given financial goal, with an average retirement age of 65 for men and 63 for women, according to Fidelity research.²⁸ It is too early to say whether COVID-19 and resulting recession will impact retirement decisions. However, two types of factors will influence the direction from here: 1. factors that determine motivation to remain employed, and 2. those factors representing a worker's opportunities to remain employed.

EXHIBIT 3: Most participants maintained their contributions and asset allocations during the height of the pandemic.

Participant Withdrawals (April–June 2020)



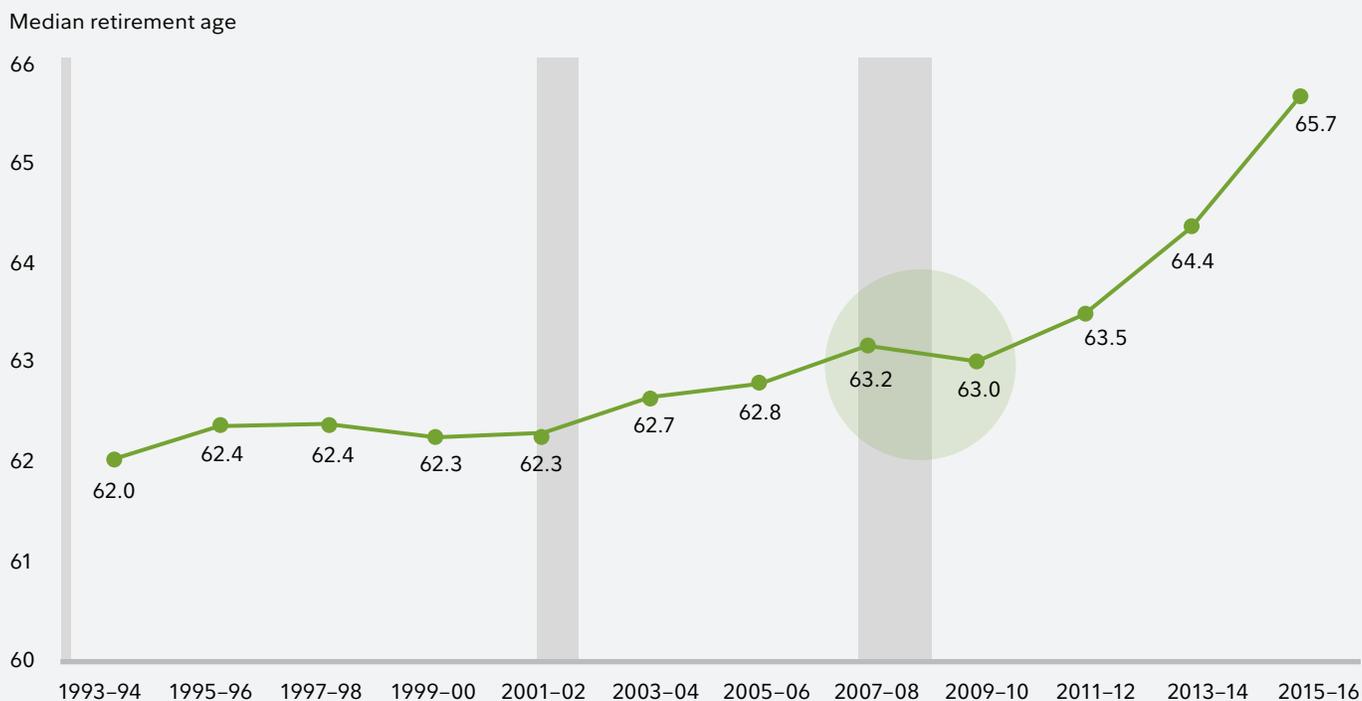
Source: Fidelity Investments Workplace Investing. As of June 30, 2020. Based on Fidelity Recordkeeping data.

We believe the motivation to remain in the labor market is likely to be stronger given the fact that the pandemic has negatively impacted pre-retirees' readiness to retire, supported by recent studies. For example, a May survey by Wells Fargo and Gallup showed that 40% of people aged 50–64 said they are very or somewhat likely to work longer than planned.²⁹ A June survey by Ameritrade found decisions going both ways, with 37% of baby boomers delaying or considering delays to their retirements and nearly a quarter (23%) saying they have or are considering early retirement as a result of the pandemic.³⁰

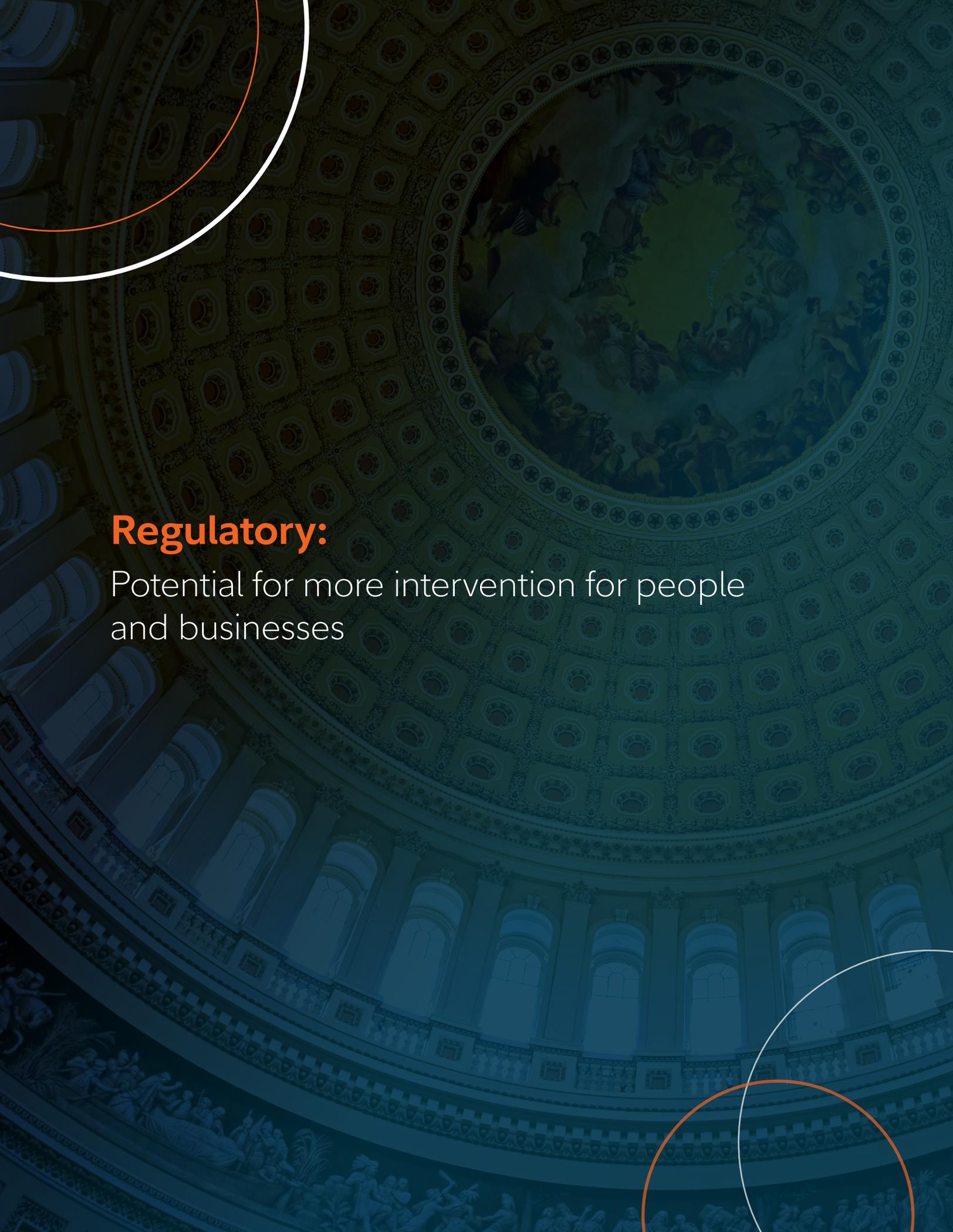
Surging job losses caused by the pandemic may result in more limited employment opportunities and involuntary retirement. In addition, unemployment near retirement has historically made it more challenging for those trying to stay employed, as seen

in one Stanford University study of the jobs aftermath of the global financial crisis.³¹ The study found that participation rates for men aged 62–64 rose 3.4 percentage points between 2007–2009 (perhaps as a result of wealth lost in the financial crisis) but then fell 1.9% in the following two years, presumably because rising unemployment induced them to retire after the impact of the recession had faded. By the third quarter of 2011, 38% of unemployed workers aged 62 and older had been out of work for more than a year, up from 20% in 2009, and 7% in 2007. Data from the National Institute on Aging's Health and Retirement Study (HRS) suggests that the retirement age has been on a secular rise,³² perhaps due to longevity and lower interest rates that can reduce income earned on savings. HRS data suggests the 2008–2009 recession might have resulted in early retirement to some degree.

EXHIBIT 4: The retirement age has been on a secular rise, but recession can result in more early retirements, as seen after the 2008–2009 downturn.



Shading represents U.S. economic recession as defined by the National Bureau of Economic Research (NBER). Sources: NBER, Haver Analytics, Fidelity Investments (AART), University of Michigan's Health and Retirement Study (HRS), as of Aug. 7, 2020. Retirement data from HRS as of December 2016.



Regulatory:

Potential for more intervention for people and businesses

COVID-19 has been met with a historic response from Congress, which has appropriated nearly \$2 trillion in the CARES Act to manage the health care and economic crisis impacting families, hospitals, businesses, schools, state governments, and more.

Meanwhile, the Federal Reserve and Treasury Department have taken bold liquidity actions to help ensure that credit and lending markets remain stable.

Following supplemental extensions to CARES Act programs, Congress is negotiating a fourth measure, likely to be the last legislative action before the 2020 federal elections. However, Republicans and Democrats remain at odds over how much financial assistance to provide and where to focus the relief;

as of this writing, the two parties have not reached an agreement, but President Trump recently signed an executive order and three memoranda to extend unemployment insurance, defer payroll taxes, and delay student loan debt repayments. As negotiations on the next stimulus package continue, many of the relief provisions included in the CARES Act could be further extended such as direct payments to families and unemployment insurance.

EXHIBIT 5: The U.S. government has undertaken historic programs to help people and businesses, with more stimulus planned.

Provision	Purpose	Possible Inclusion in Next Stimulus Package
Financial assistance to workers and families		
Direct payments to individuals and families	Provided direct “stimulus” checks of up to \$1,200 per adult for those whose income was generally less than \$99,000, and \$500 per child, or up to \$3,400 for a family of four.	Yes
Expanded unemployment insurance	Expanded the program to workers not previously eligible for benefits; provided and additional \$600 automatically added to each week of benefits.	Yes
Penalty-free retirement withdrawals and higher loan amounts	Waived the 10% early withdrawal penalty for distributions from retirement plans for up to \$100,000 from qualified retirement accounts (for those impacted by COVID-19). Also, doubled the maximum loan limit to \$100,000.	N/A
Waived required retirement withdrawals	Waived the Required Minimum Distribution (RMD) rules for certain defined contribution plans and IRAs for 2020.	N/A
Suspension of student loan payments	Suspended federal student loan payments, including interest, for six months. It does not apply to federal loans held by private lenders. (Earlier in March, guidance from the Department of Treasury halted the accrual of interest on federal student loans.)	?
Financial assistance to companies		
Small Business loans	Provided \$350 billion (plus an additional \$310 billion in a subsequent package) to the Paycheck Protection Program (PPP) to maintain employment levels and payrolls of small businesses. Loans may be forgiven if the employer meets certain criteria for how the loan is used.	?
Relief for defined benefit (DB) plans	Plan sponsor funding obligations for 2020 can be deferred to 2021.	Yes <i>Note: Future stimulus packages could include defined contribution funding relief for 2020.</i>

Source: Fidelity Investments. As of Aug. 19, 2020.



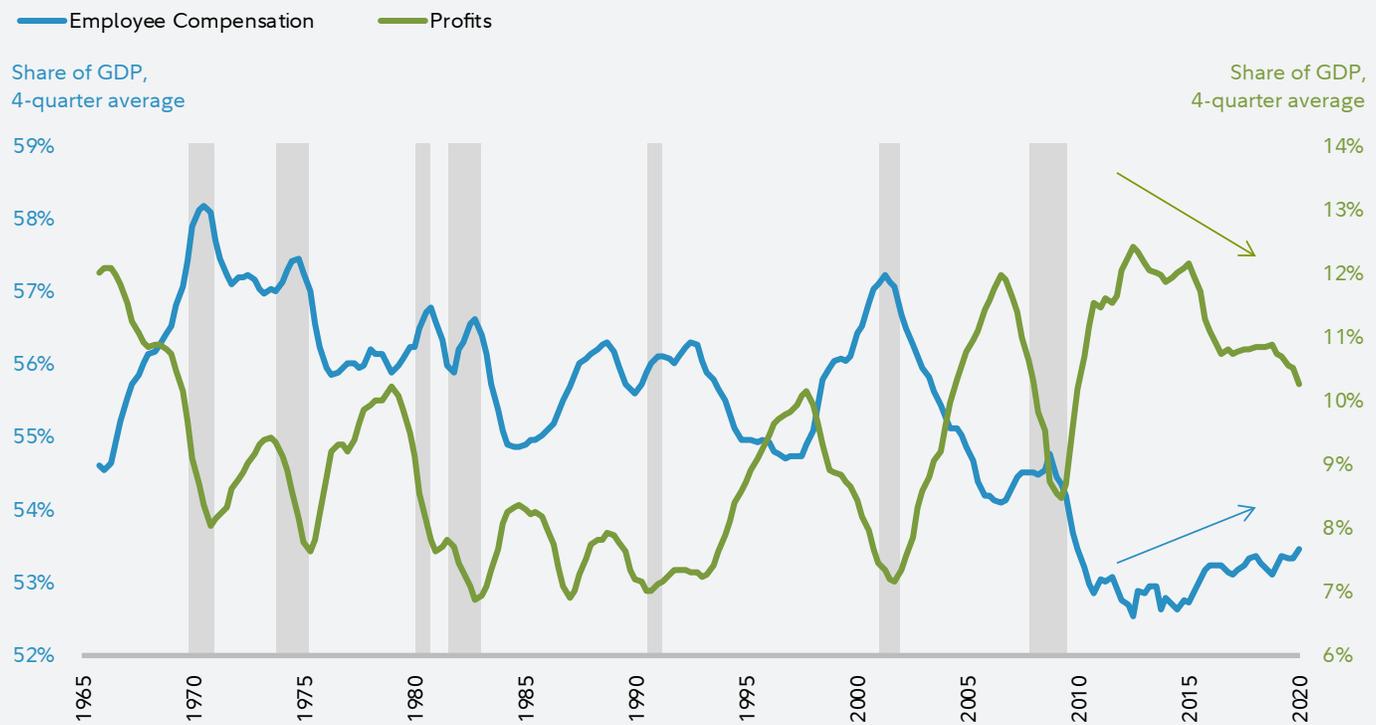
Implications for investing and asset allocation

Pension shortfalls

Extraordinary monetary policy that has kept interest rates at historical lows has already made it challenging for pensions to maintain their funded status, given that they are required to discount their liabilities to high-quality bond yields. A recent report found that the GAAP funded status for most defined benefit (DB) plans fell between 5% and 15% through the end of the first quarter.³³ The declines coincided with a drop in economic activity, an increase in corporate funding costs and efforts to search for liquidity to weather a downturn with an undetermined length, the report said. Another prolonged period of low rates will make it challenging for plans to restore their funded status, even when rates start rising over the long term.

The policy response to COVID-19 could also accelerate a trend seen as a result of years of low rates. Pensions for some time have taken advantage of low borrowing rates to incorporate leverage to meet return objectives and/or close funding gaps. Many pension funds have shifted substantial assets out of publicly traded securities and into unlisted equity and debt, as well as other private assets. While easy monetary policy can counter some of the economic impacts of the pandemic, it could also lead to even more leverage going into the system, raising the potential for unintended risks. (For more on growing use of leverage and related themes, please see Fidelity research, "The Unintended Consequences of Extraordinary Monetary Policy," April 2020).

EXHIBIT 6: The pandemic could accelerate the multiyear trend of normalizing wage growth and pressure on corporate profit margins.



Shading represents U.S. economic recession as defined by the National Bureau of Economic Research (NBER). Source: NBER, Haver Analytics, Fidelity Investments (AART), as of June 30, 2020.

Pensions in the past have sought and received funding relief following recessions, arguing that the low rates they used for calculating pension contributions were suppressed from government and fiscal policy, and would require higher contributions rather than using those funds for jobs and business investment. As outlined in Exhibit 5, the CARES Act provided some funding relief for pensions by allowing a delay of 2020 contributions until January 2021, among other terms, and plan sponsors are hoping for more in the next round of stimulus for all of the same reasons.

Fidelity has noted companies offering a range of cost-cutting strategies, including early retirement windows, furloughs, and job cuts. Some companies are also derisking (based on the prior year's rates) to get those liabilities off their books at a lower cost. Beyond this year, we would expect lump-sum activity to slow down, as the ultra-low rate environment would be reflected in those amounts.

Higher wage gains, pressure on corporate profits

Significant macroeconomic effects of pandemics can persist for decades, with lower real interest rates, according to a new paper from the Federal Reserve Board (FRB) of San Francisco.³⁴ Lower rates were probably due, in part, to labor scarcity after past pandemics and, in part, to higher saving rates as people behaviorally became more cautious and needed to replace lost wealth. In fact, real wages have historically risen after pandemics, the FRB paper found, likely as a result of labor scarcity.

Wage growth could also get a boost from de-globalization. As outlined in Exhibit 6, labor costs as a share of GDP reached a record low in the early 2010s as a result of several decades of globalization, contributing to a record high share of GDP being allocated to corporate profits. Labor's share of GDP has since begun to normalize as globalization trends subsided, and COVID-19 may accelerate the current trend, which could lead to higher wage growth and pressured profit margins.

However, the secular improvements to labor share and wages are likely to benefit higher-skilled workers the most. The COVID-19 crisis may disproportionately impact workers in lower-paid, service-based occupations. Over the long term, the premia on more sophisticated skill sets may increase and potentially add to the divergence between lower and higher-skilled workers, likely further increasing inequalities in the workforce.

Inflation

Inflation has been muted in the years since the Fed undertook extraordinary monetary policy to help the economy recover from the Global Financial Crisis. The sudden-stop of the economy in the first quarter reduced demand for many goods and services, causing inflation to fall well below the Fed's 2% target, and we expect it to remain low in the near-term. Federal Reserve Chairman Jerome H. Powell has acknowledged the limitations of monetary policy to normalize inflation, with policymakers initiating discussion around a more flexible inflation framework. Future declines in inflation could be met with even more permissive monetary policy.

Another potential effect from COVID-19, which could drive higher inflation, is a move toward stronger labor bargaining positions. Demand for higher wages by workers who were deemed essential during the pandemic could raise the labor share, push services prices higher, and ultimately raise the inflation rate. When combined with a permissive monetary policy stance, such upward wage pressure could result in a regime change within inflation. Reflationary policies could take the form of wealth redistribution, industrial policies accompanied by massive fiscal investment, and/or attempts to raise inflation expectations. These choices and the magnitude of the response to them will have profound implications for asset prices and the nature of future market dislocations. (For more on these themes, please see new Fidelity research, "Unstable Global Debt: Roadmap for Strategic Asset Allocation," July 2020).

Implications for asset classes, asset allocation, and diversification

From an asset class perspective, there will likely be a meaningful impact to stocks across different industries, though it is too early to tell if the virus will permanently impact overall earnings growth. Many technology and health care companies may benefit structurally from permanently changed customer preferences and how businesses run their operations. At the same time, the swift movement to working from home may create less demand for office space and accelerate the secular decline in retail space, significantly impacting real estate. More people working from home and taking less public transit will impact the energy sector

as well as changing the ways in which governments support once-needed infrastructure projects. All of these moving parts will undoubtedly impact the distribution of earnings across the corporate sector and the valuations investors place on equities across each sector. There may be more active opportunities within equities or across asset classes as the economy and markets take time to settle from such an unprecedented period.

From an asset allocation perspective, bonds may not provide as much diversification as they have in the past. Policymakers' unprecedented support may keep interest rates at extraordinarily low levels for a long period of time, keeping bond returns subdued.

EXHIBIT 7: Post COVID, the next 20 years may be more favorable for stocks versus bonds than the last two decades.

U.S. Equity and Bond Excess Returns January 1926–April 2020



Source: Global Asset Allocation (GAA) group as of April 30, 2020. Return assumptions for equities and bonds are based on a blend of economic and financial inputs and reflect a proprietary analysis of historical asset class performance by GAA, with equities represented by the S&P 500 index and bonds represented by the Bloomberg Barclays U.S. Aggregate Bond Index. Asset class excess returns are represented by indexes from the following sources: Fidelity Investments, Morningstar, and Bloomberg Barclays. **Past performance is no guarantee of future results.** With the exception of the data point for the next 20 years' estimated excess returns, the returns shown above are historical and show the difference between equity and bond performance between January 1926 and April 2020. Each bar represents the frequency or number of times that excess returns happened at a certain amount (e.g., 12 times at 1.3% and 22 times at 1.4%). Historical returns shown are 20-year rolling excess returns (annualized). There are 892 observations of 20-year rolling periods, with a new rolling period starting every month. Next 20 years estimated excess returns based on GAA's views on factors that impact asset returns including corporate earnings growth, valuations, and bond yields. This chart is for illustrative purposes only and does not represent actual or future performance of any investment option. **This material contains statements that are "forward-looking statements," which are based upon certain assumptions of future events. Actual events are difficult to predict and may differ from those assumed. There can be no assurance that forward-looking statements will materialize or that actual returns or results will not be materially different than those presented.**

If interest rates remain at low levels alongside a secular increase in inflation, bonds could offer less diversification than they have provided over the past several decades. Moreover, if debt levels continue to rise (fueled in part by extraordinary stimulus), resulting in rising interest rates, bonds could provide less correlation benefits to equities. On the other hand, a wave of early retirements as a result of COVID-19 could lead to a growing share of assets in fixed income securities from equities, which could support bond returns. If interest rates remain low for an extended period, the search for yield may encourage flows into riskier asset classes, supporting high yield bonds and dividend-paying equities.

Overall, Fidelity's Global Asset Allocation (GAA) group believes stocks will provide higher relative returns to high quality bonds over the next 20 years than they did in the past two decades, as outlined in Exhibit 7. Bonds in the past 20 years provided almost equal returns to stocks, but GAA feels a slower-growth, potentially higher inflation regime should provide more attractive

relative returns for equities. GAA believes that portfolios should be highly diversified with a robust portfolio construction process and a wider selection of asset classes. For example, investors may want to consider TIPS, gold, and real assets given greater uncertainty and the potential for an unanticipated shift in market regimes or asset correlations.

Conclusion

COVID-19 has created an uncertain future for the economy that could result in dramatic ripple effects across investing, retirement planning, and asset allocation. Fidelity Investments remains focused on examining all of the emerging trends and potential implications of the pandemic to identify opportunities and risks, and help its clients and customers be prepared for whatever lies ahead. Fidelity's panel of experts will continue to evaluate conditions, using proprietary research and tools, to identify and maximize all of the information relevant to sound long-term decision-making.

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Endnotes

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