



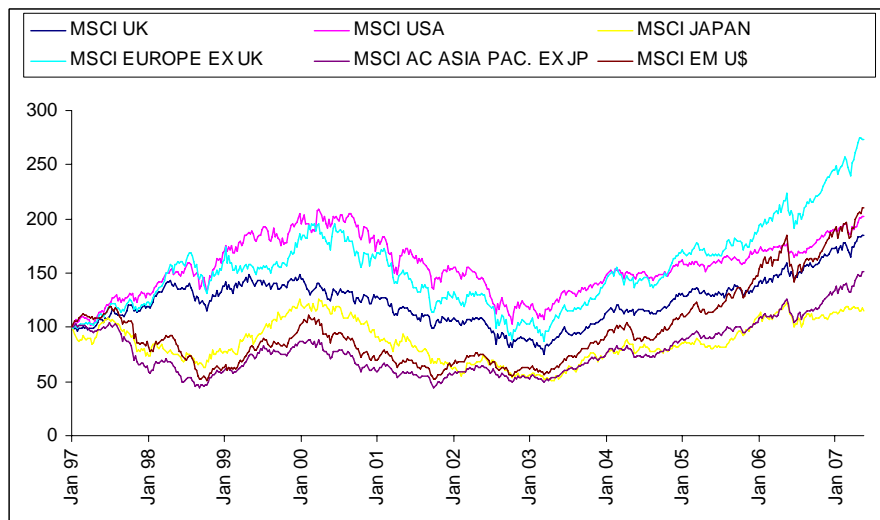
## A GOLDEN AGE FOR BALANCED FUNDS, SAYS FIDELITY INTERNATIONAL

- **Stocks and bonds have become negatively correlated making diversification more valuable than ever**
  - **Meanwhile, increased correlations between equity markets mean asset allocation decisions are no longer based solely on geography**

**London, 20 June 2007** – Financial markets have seen a number of structural shifts in the past decade, according to Fidelity International. Equity markets around the world have become more correlated and where geography was once a key driver in asset allocation, now asset classes and industrial sectors also have a major influence on allocation decisions.

Speaking at a conference hosted by Fidelity International in London, **Trevor Greetham, Director of Asset Allocation**, commented: “Global investment strategy used to be all about picking the best countries in which to invest. Investors thought in terms of underweighting German equities to buy those in the US, for example. In recent years, this has been a less effective way of adding value as regional equity markets have become more highly correlated due to increased globalisation, the outsourcing movement, the launch of the Euro and highly synchronised economic cycles.”

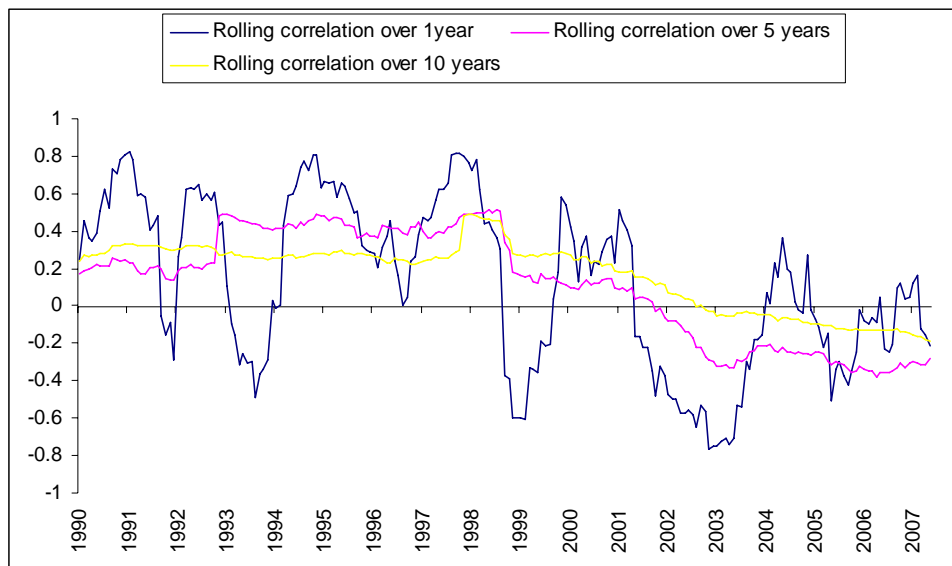
### Performance of regional equity markets\*



“While thinking in terms of geography still helps, adopting a global sector strategy has become increasingly useful” continues Mr Greetham. “This is especially the case if fund managers can then identify the best stocks within each sector through international comparisons. The correlations between industrial sectors are relatively low and are likely to remain so given the fundamental differences between an oil company and a healthcare provider, for example. Meanwhile, individual companies increasingly compete on the global stage both in terms of their end product markets and the global capital flows they look to for funding.”

“While regional equity markets have become more highly correlated, the relationship between equities and bonds has done the reverse. The rolling five year correlation between U.S. stocks and bonds is at its most negative level for at least 106 years. The equivalent UK stock/bond correlation is at its most negative in for least 70 years.\*\*

**Greater de-correlation between stocks and bonds – rolling correlations\*\*\***



“Changes in the behaviour of inflation go a long way to explaining why this change has taken place and why low correlations between asset classes are likely to persist. During the inflationary 1970s and the twenty year disinflation trend that followed, equity and bond markets moved together, both suffering from and then benefiting from pronounced shifts in the interest rates investors used to value future cash flows. The Russia default crisis in September 1998 marked the start of a radical change; it was the first time in



recent memory that the major central banks cut rates to prevent inflation becoming *too low*.

“Ever since, inflation has been low and well-contained with credible central bank arrangements in place to keep it that way. Nowadays, the differential performance of stocks and bonds is being driven by the economic growth cycle. During boom times, like the 1999 dot.com bubble or the last few years, equities have surged ahead while bonds suffered. During the synchronised global downturn of the early 2000s, equities were hit badly while bonds came into their own.”

**Mr Greetham concluded**, “All the time the two main asset classes moved together, diversification was treated with derision. It wasn’t until the dot.com bubble came to an end that investors started to appreciate the smoother returns to be gained from owning a mix of assets. As new asset classes such as commodities emerge and join the mainstream, the benefits of including these uncorrelated asset classes in a portfolio are also becoming evident. To my mind this is a golden age for balanced funds.”

Fidelity International Limited (“FIL”) and its subsidiary companies serve the major markets of the world by providing investment products and services to individuals and institutional investors outside the US. The FIL Organisation manages a total of £143.0 billion of assets\*\*\*\*.

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**Notes to editors:**

\*Source: DataStream, 30.04.07, in US Dollars

\*\*Source: ABN AMRO Global Investment Returns Yearbook 2007

\*\*\* Source: DataStream, 01.01.90 to 01.05.07

\*\*\*\*Source: Fidelity as at 31.03.07

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**For further information, please contact:**

**Richard Miles**

Fidelity International

020 7961 4921

07736 056715

[richard.miles@uk.fid-intl.com](mailto:richard.miles@uk.fid-intl.com)

**Sam Slator**

Fidelity International

01737 837 847

07841 783882

[sam.slator@uk.fid-intl.com](mailto:sam.slator@uk.fid-intl.com)

**OR:**

**Joanne Cosson**

Fidelity International

020 7961 4361

07834 254959

[joanne.cosson@uk.fid-intl.com](mailto:joanne.cosson@uk.fid-intl.com)

Address: Fidelity Investments International, Kingswood Place, Millfield Lane, Lower Kingswood,  
Tadworth, Surrey KT20 6RP

CB31581/na