

Global Macro Outlook

World of Wars

Fidelity Multi Asset
Global Macro and Strategic Asset Allocation Team
September 2025



Glossary

AI	Artificial intelligence	FOMC	Federal Open Market Committee
APxJ	Asia-Pacific ex-Japan	FX	Foreign exchange
AT1	Additional Tier 1 bonds	GDP	Gross domestic product
B/S	Balance sheet	HICP	Harmonised Index of Consumer Prices
BOE	Bank of England	HY	High yield
BOJ	Bank of Japan	IG	Investment grade
CBO	Congressional Budget Office	IT	Information technology
CH-AI	China Activity Indicator	JCB	Japanese government bonds
CPI	Consumer Price Index	LATAM	Latin America
DM	Developed market	MENA	Middle East and North Africa
EA	Eurozone area	MOM	Month-on-month
EC	European Commission	OECD	The Organisation for Economic Co-operation and Development
ECB	European Central Bank	P/E	Price-to-earnings
EM	Emerging market	PBOC	People's Bank of China
EMD	Emerging market debt	PCE	Personal consumption expenditures
EMEA	Europe, the Middle East and Africa	PMI	Purchasing Managers' Index
EV	Electric vehicle	PPI	Purchase Price Index
FCI	Financial condition index	VIX	CBOE Volatility Index
Fed	US Federal Reserve	YCC	Yield curve control
FI	Fixed income	YOY	Year-on-year
FLI	Fidelity Leading Indicator		

Global Macro Outlook

World of Wars

- **US – a tale of two halves:** after a weak H1 2025, the US economy has been more resilient moving into the third quarter, despite rising downside risks on the labour market and housing. Consumer spending is holding up on steady wages and slower pass through of tariff shocks while business investments remain resilient buoyed by tech-related spends. However, consumer sentiments remain fragile and further pass throughs of price pressures are set to erode real incomes in an already weakening labour market. **We therefore maintain our base case that growth will remain well below trend for the rest of the year.**
- **Fed restarts its easing cycle, but path ahead remains uncertain:** the Fed's pivot reflects the balance of risks shifting towards the labour market vs inflation earlier. Still, the FOMC remains in a meeting-by-meeting mode and data will dictate the pace of future cuts. **We expect two more cuts this year – broadly aligned with the dots and market pricing - followed by a pause.** Beyond May 2026, under new Fed leadership, the likelihood of additional cuts inconsistent with a 2 per cent inflation target rises. At the same time, the US administrations push for Fed reforms, points to the possibility of an even larger break from the Fed's old reaction function, **making it vital to track not just policy, but the politics driving it.**
- **Geoeconomic Strategy – competing blocs harden but fault lines remain:** As the **US pursues a Retrench–Rebuild–Repair strategy focused on reindustrialisation and reinforcing its near-abroad**, its strategy is increasingly butting up against the constraints of supply chain dependencies on China, and the risks of overstretching old Asian alliances. In parallel, **China is consolidating its influence through the Shanghai Cooperation Organisation, forming an emerging Eurasian block with deepening ties to Russia, Iran and others.** Finally, the Indian Ocean–Gulf nexus is emerging as a pivotal swing region where shifting alignments will prove decisive for the balance of global power.
- **ECB to cut once more this year despite ‘positive’ US/Europe trade deal:** Underlying growth in the Euro area continue to chug along at a soft pace, with downside risk associated from despite recent resilience. While the medium-term fiscal outlook has become more favourable for growth, tariff headwinds are likely to weigh on the near-term growth outlook. **Risks to inflation remain skewed to the downside as a result of the strength of the euro and excess goods from East Asia reorientating to the Single Market**, with latest wage tracker data justifying our evaluation of the downside risks. **We maintain a more dovish view regarding ECB monetary policy than markets**, expecting that rates have not hit their trough and believe that the ECB will cut once more this year.
- **China growth stabilisation more credible post-deal:** The extension of the trade truce reduces pressure on China to deliver new fiscal easing. Domestic growth slowed on the margin as fiscal frontloading momentum faded while exports remain resilient. We maintain our view that the government targets **Controlled Stabilisation (growth ~4.5%) through reactive, incremental policy rather than aggressive support.** Fiscal easing has pivoted into more targeted easing for households. More fiscal easing could be forthcoming in Q4 if downside pressures mount.
- **TAA views:** With uncertainty high and an increased likelihood for volatility ahead, these are the times when diversification matters. **We are neutral equities, overweight government bonds, and underweight credit.** We prefer emerging market equities as well as EM local currency government bonds, and high yield bonds.

Source: Fidelity International, September 2025.

2025 Growth forecasts

We lift our outlook to balanced for emerging markets after relatively benign trade deals being struck. We still see downside risks to DMs largely due to the US.

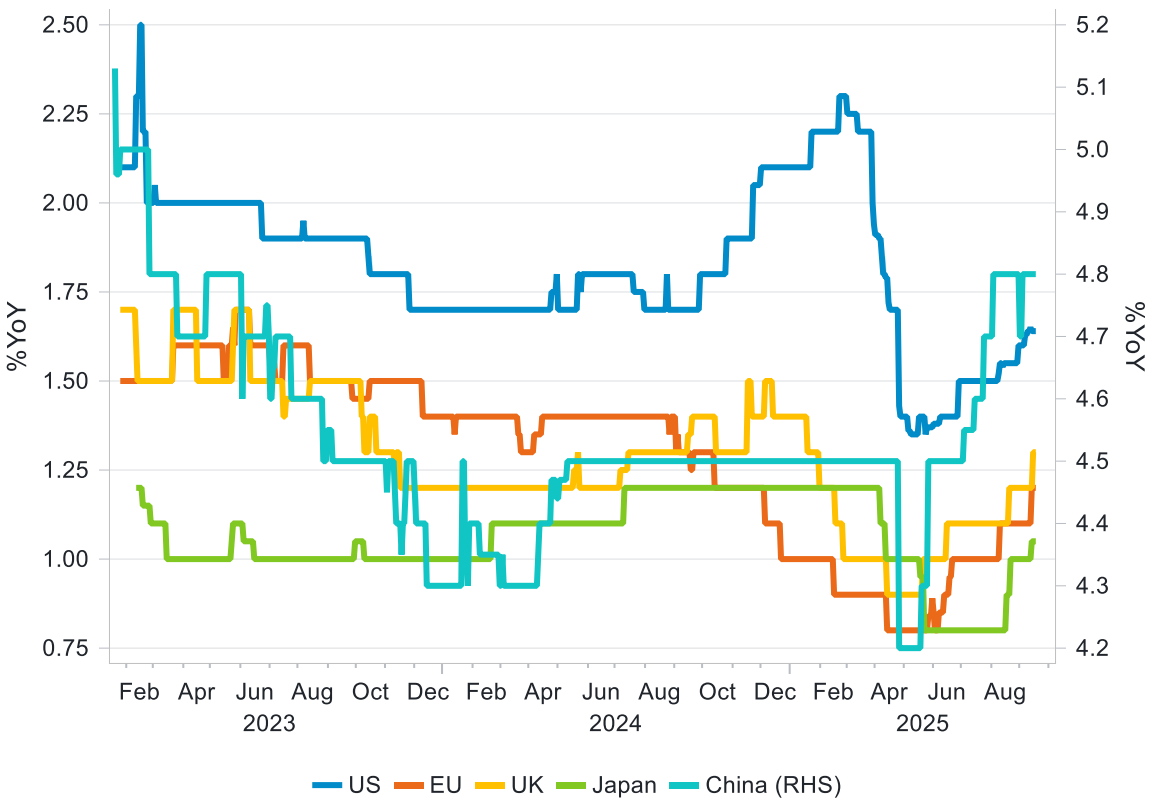
2025 Growth (%YoY)	BBG Consensus*	Fidelity Upside Case	Fidelity Downside Case	Risk Assessment vs Consensus
Global	3.4	3.8	2.4	Downside
Developed markets	1.4	1.9	0.5	Downside
US	1.6	2.6	0.5	Downside
Eurozone	1.2	1.3	0.5	Downside
UK	1.3	1.5	0.9	Balanced
Japan	1.1	0.5	0.75	Balanced
Emerging markets	4.7	5.1	3.7	Balanced
China	4.8	5.0	3.5	Balanced
India	6.4	7.2	6.0	Balanced
Brazil	2.3	2.8	1.5	Balanced
Mexico	0.5	1.5	-0.9	Downside
Turkey	3.0	3.5	1.5	Downside
Indonesia	4.8	5.1	4.6	Downside

Source: Fidelity International, Bloomberg, September 2025. Note: these scenarios and risk assessment are not intended to be exact growth forecasts, but rather illustrations of potential outcomes based on particular assumptions about a number of variables, including supply side risks, monetary and fiscal policies and associated multipliers, corporate and consumer behaviour. Given significant uncertainties related to how the cycle might evolve, these scenarios are subject to change. DM, EM and global aggregates are calculated including only countries that appear in the table, giving rise to potential differences vs aggregate consensus numbers quoted on Bloomberg, which include a wider universe. For India we use Fiscal year 2026 numbers. We will be revising growth numbers and risk assessment continuously, as signals evolve, and more information becomes available *BBG consensus as of 17 September 2025.

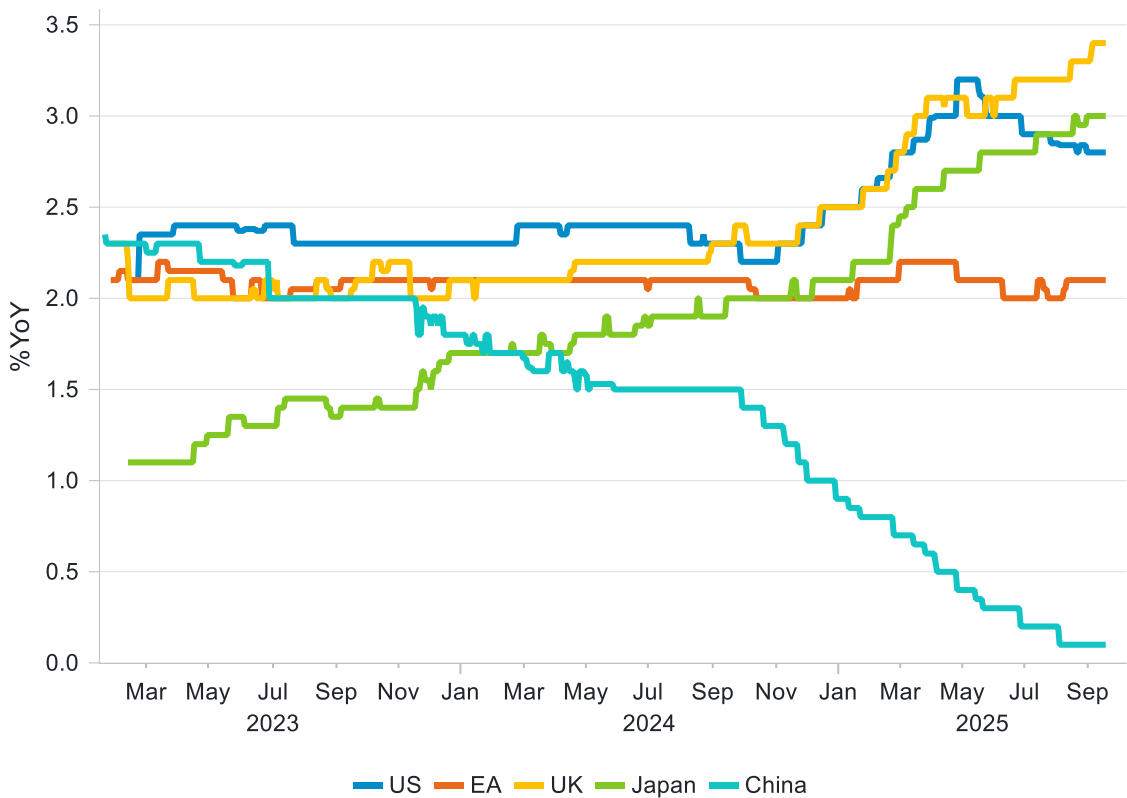
Global growth and inflation consensus forecasts for 2025

Consensus around global growth has ticked up slightly after trade uncertainty has eased, while inflation expectations remain divergent

2025 real GDP growth Bloomberg consensus forecast



2025 CPI inflation Bloomberg consensus forecast



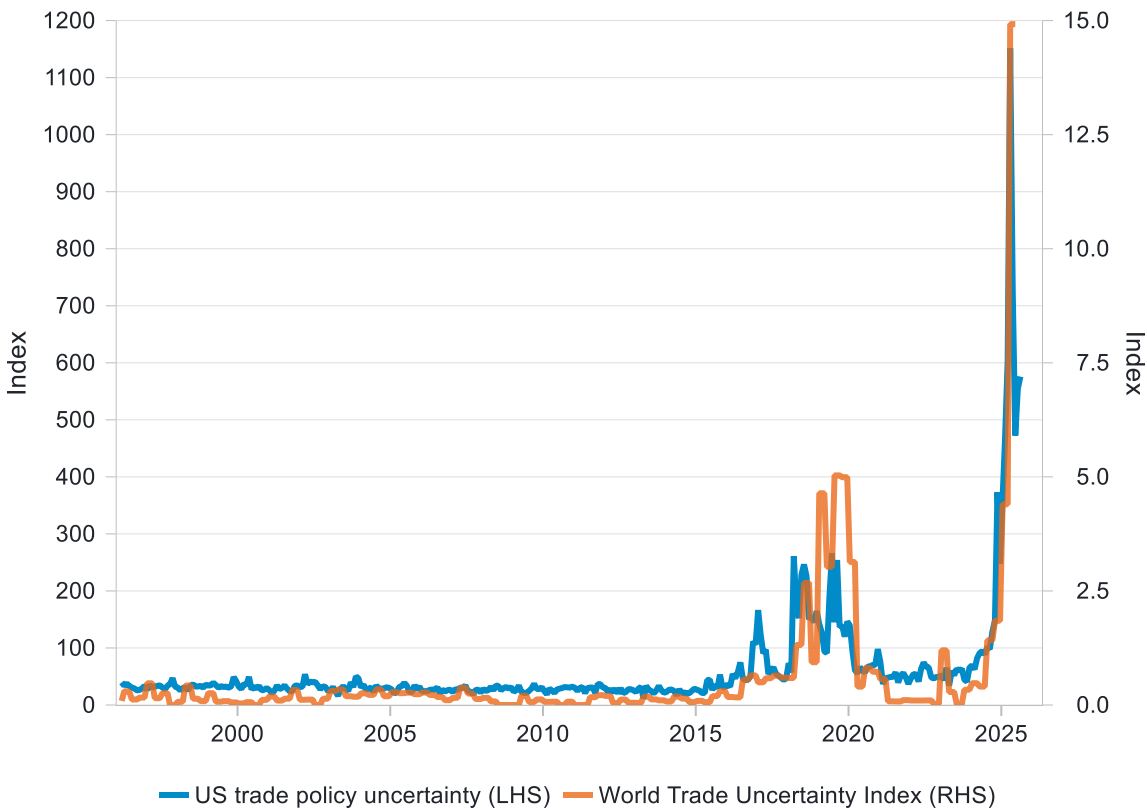
Source: Fidelity International, Macrobond, Bloomberg, September 2025.

Source: Fidelity International, Macrobond, Bloomberg, September 2025.

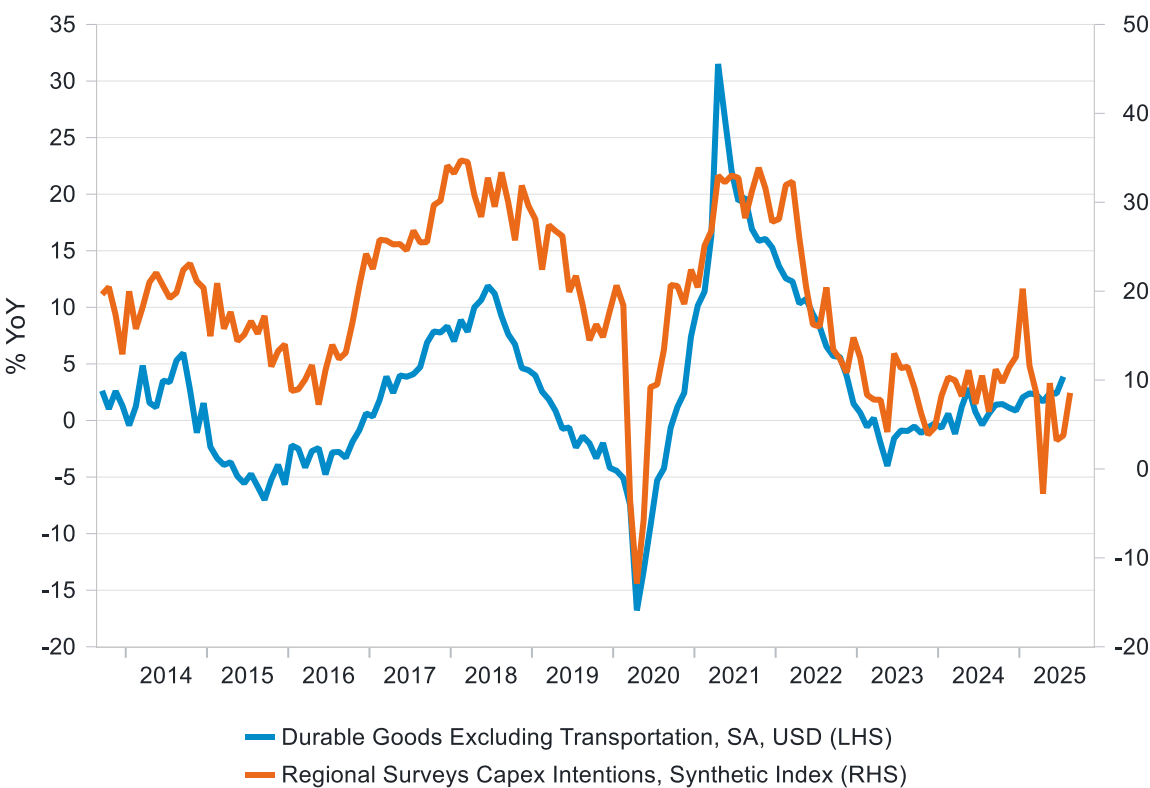
Trade uncertainty has eased from peak levels as most major trade deals announced

Even though trade uncertainty remains elevated, capex intentions are starting to pick up

US and world trade uncertainty index



US Capex intentions 6 months ahead



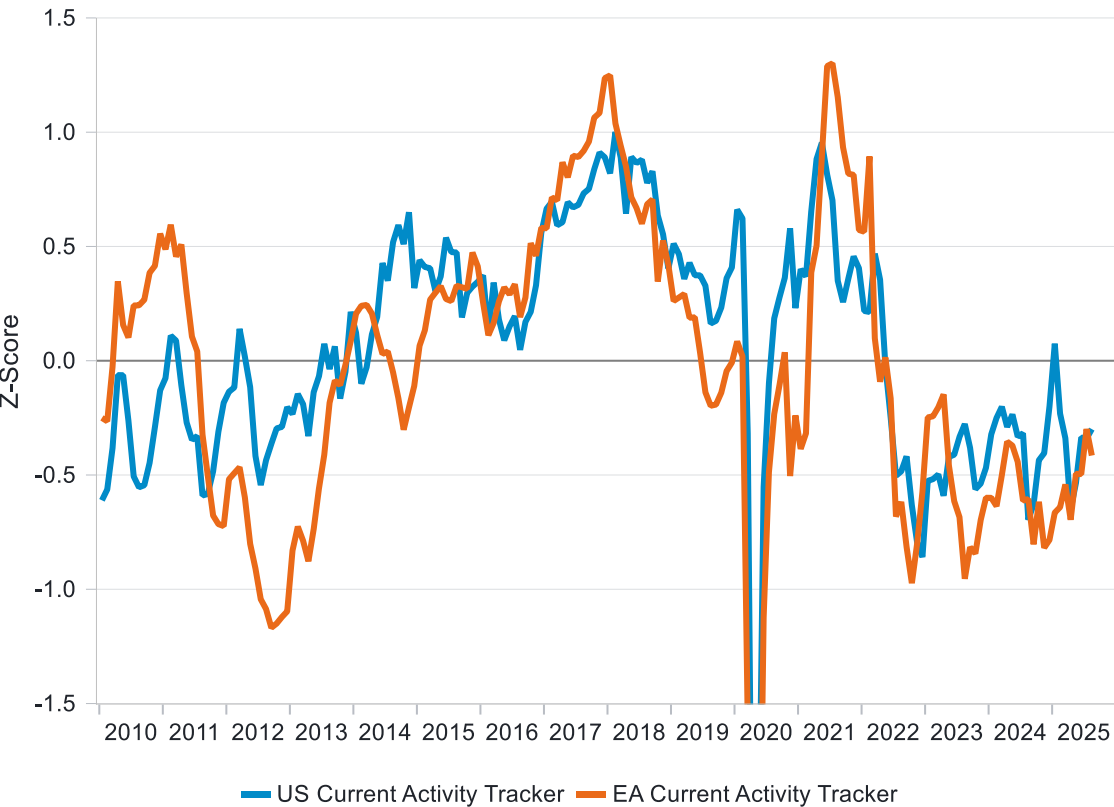
Source: Fidelity International, Macrobond, Matteo Iacoviello, Economic Policy Uncertainty, September 2025.

Source: Fidelity International, Macrobond, USCB, ISM, Dallas Fed, Kansas City Fed, New York Fed, Philadelphia Fed, Richmond Fed, September 2025.

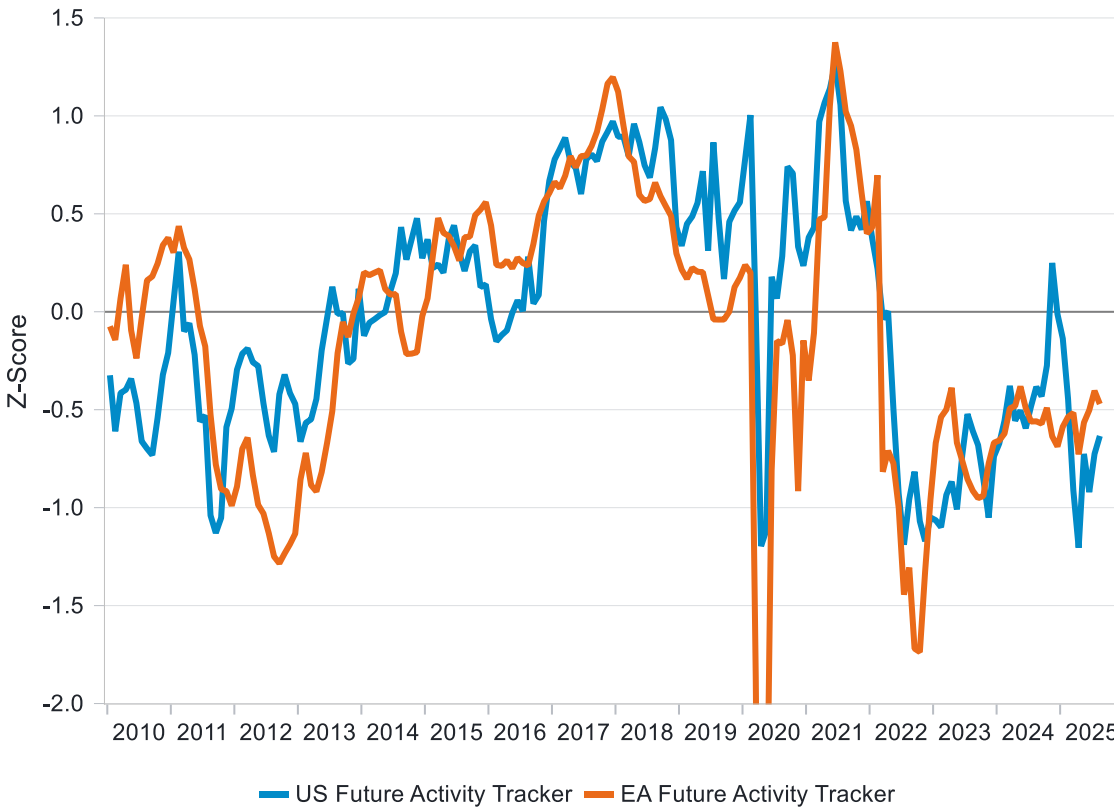
Our activity trackers have improved notably from their April lows...

...though sentiment remain weak compared historical trends

Current activity trackers: US and euro area



Future activity trackers: US and euro area



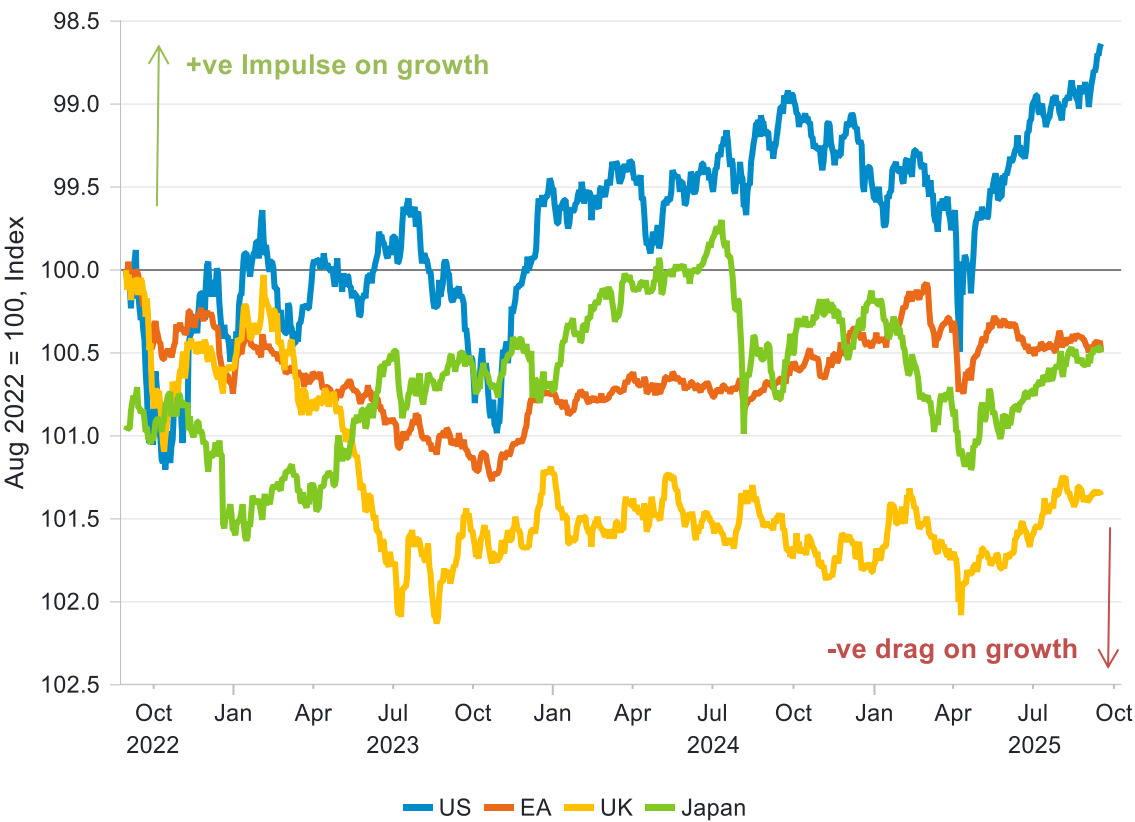
Source: Fidelity International, FIL Global Macro Team calculations, Macrobond, September 2025.

Source: Fidelity International, FIL Global Macro Team calculations, Macrobond, September 2025.

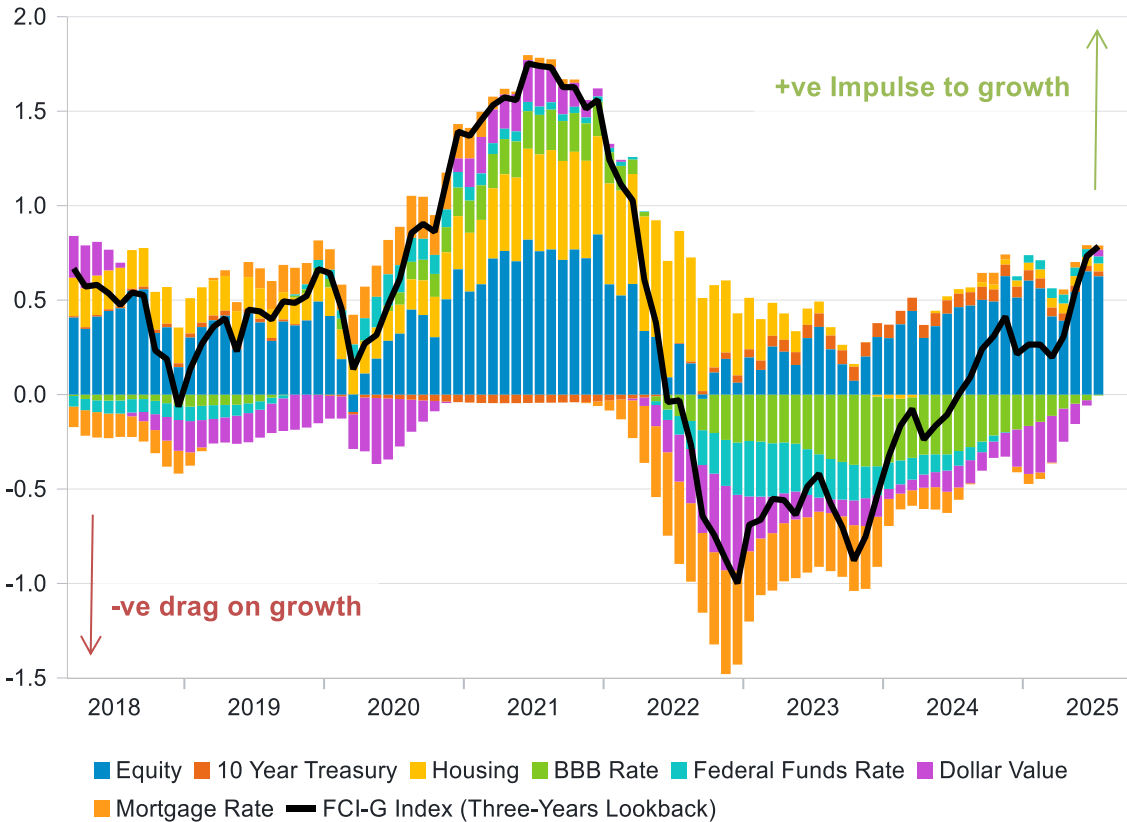
Financial conditions remain benign, particularly for the US...

... as data remains resilient and tariff effects have been slow to pass through to the economy

GS financial conditions indices (FCI)



Federal Reserve's financial conditions index



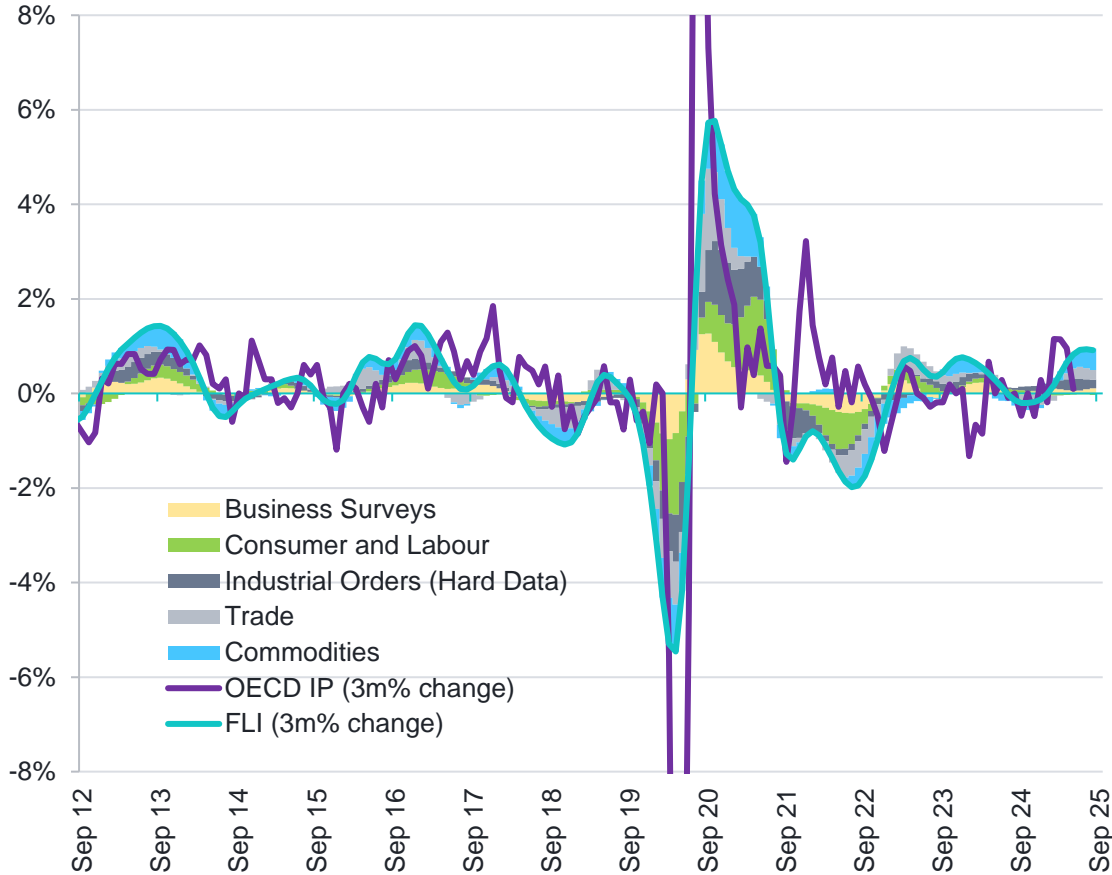
FCI – Financial Conditions Index
Source: Fidelity International, Macrobond, Bloomberg, GS, September 2025.

Source: Fidelity International, Macrobond, Fed, September 2025.

Global leading indicators

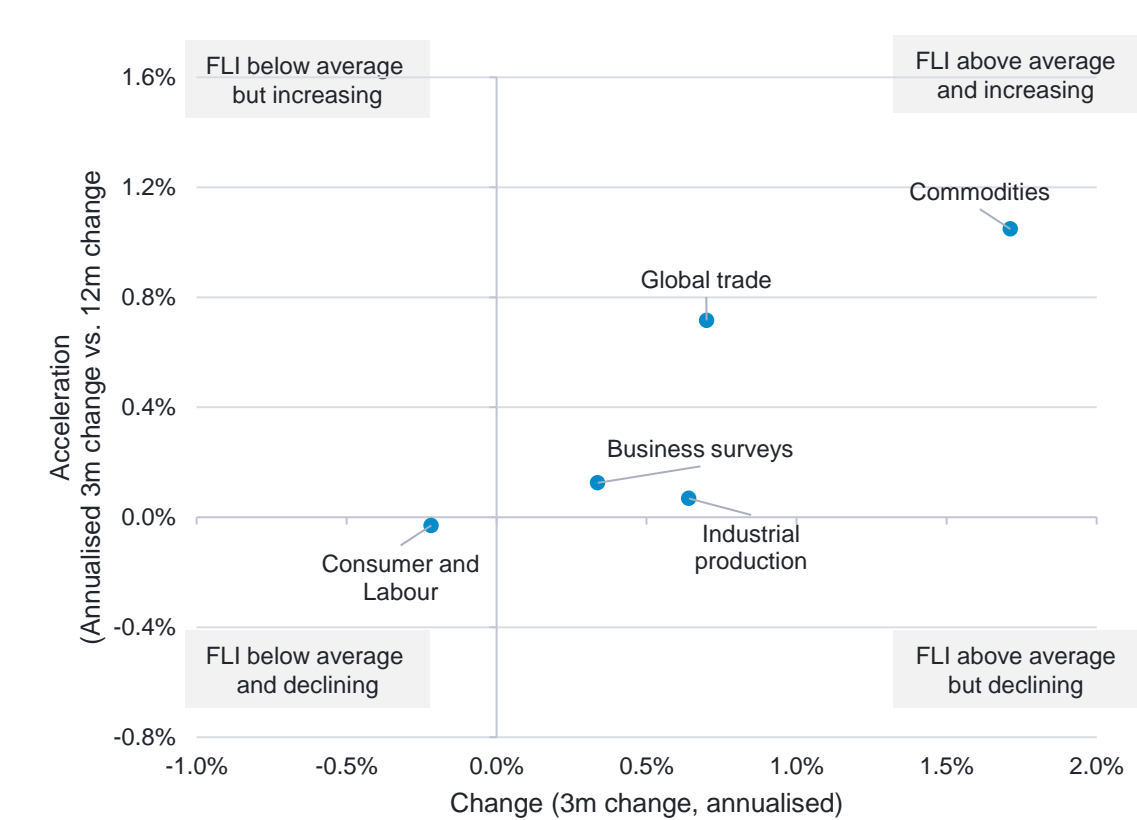
FLI remains upbeat, signalling resilience in the global industrial cycle. However, we appear to be moving away from the cyclical peak with the momentum expected to weaken ahead

Fidelity Leading Indicator (3m% change) vs OECD IP



Source: Fidelity International, FIL Global Macro Team calculations, Haver Analytics, September 2025.

Fidelity Leading Indicator: Components split

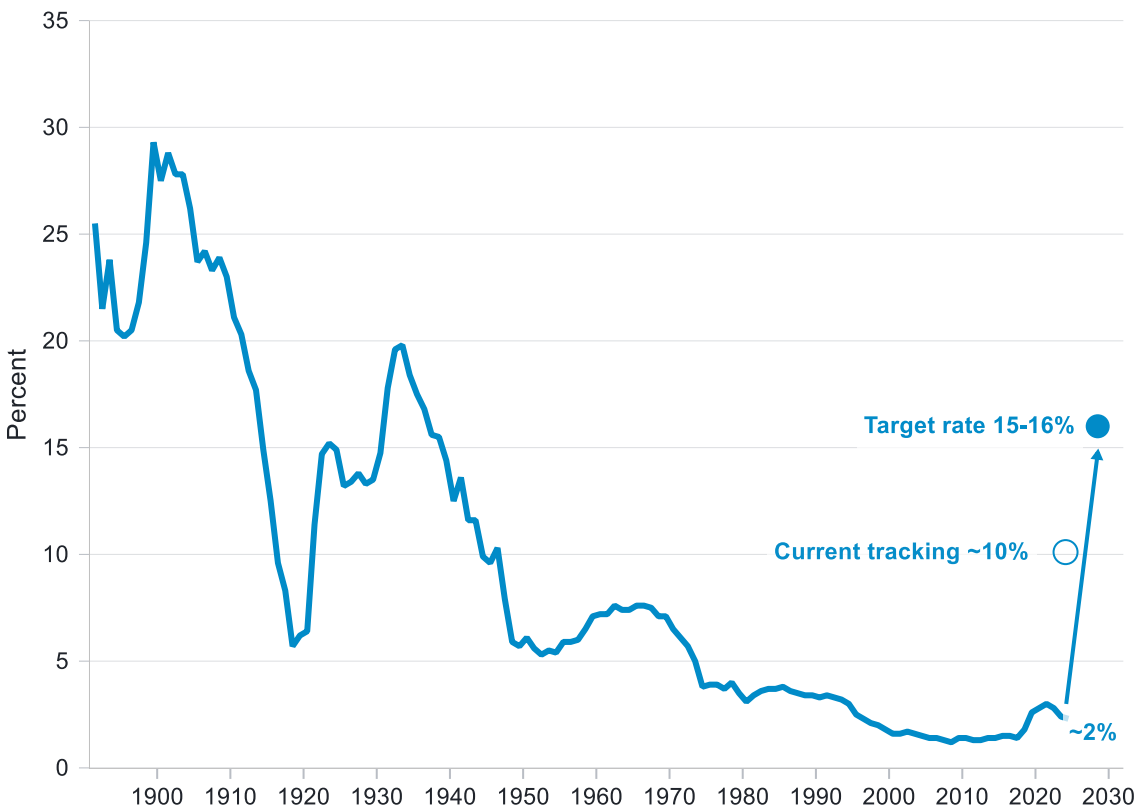


Source: Fidelity International, FIL Global Macro Team calculations, Haver Analytics, September 2025.

US effective tariff rates expected to settle at least in the 15-16% range...

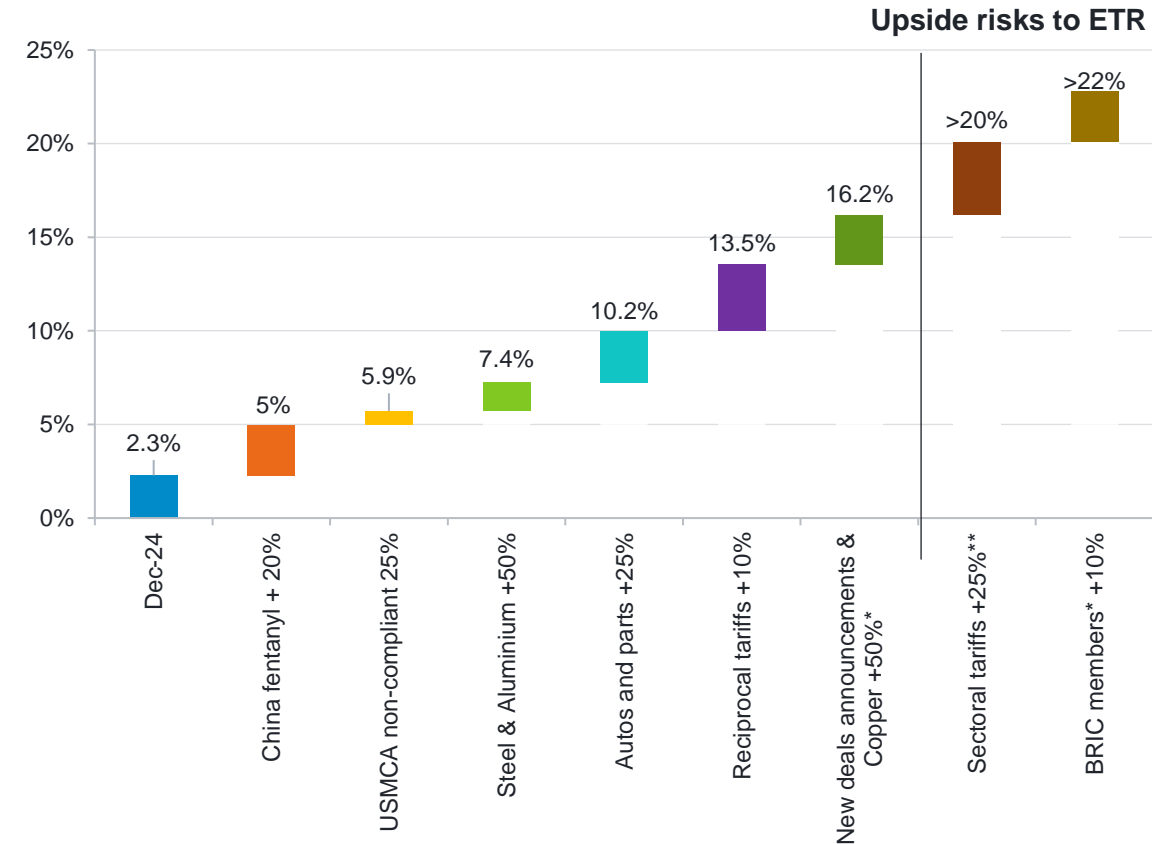
... with risks skewed to the upside with sectoral tariffs and final deal with China remaining

US effective tariff rates



Source: Fidelity International, Macrobond, United States International Trade Commission, September 2025.

US Effective tariff rates (ETR)



Note:*New deal announcements include 50% tariffs on India.** Sectoral tariff assumes 25% tariffs on pharmaceuticals, semiconductors/electronics, agriculture products. BRIC members include Brasil, Russia, India, China, South Africa, Egypt, United Arab Emirates, Ethiopia, Indonesia, and Iran. BRIC partners include Belarus, Bolivia, Cuba, Kazakhstan, Malaysia, Nigeria, Thailand, Uganda, Uzbekistan and Vietnam.
Source: Fidelity International, USIT, July 2025.

Mapping out the longer-term trade war scenarios

Changing the rules of the game carries risks and opportunities for the US

We started with “blanket tariffs” but are now moving towards “strategic fragmentation”

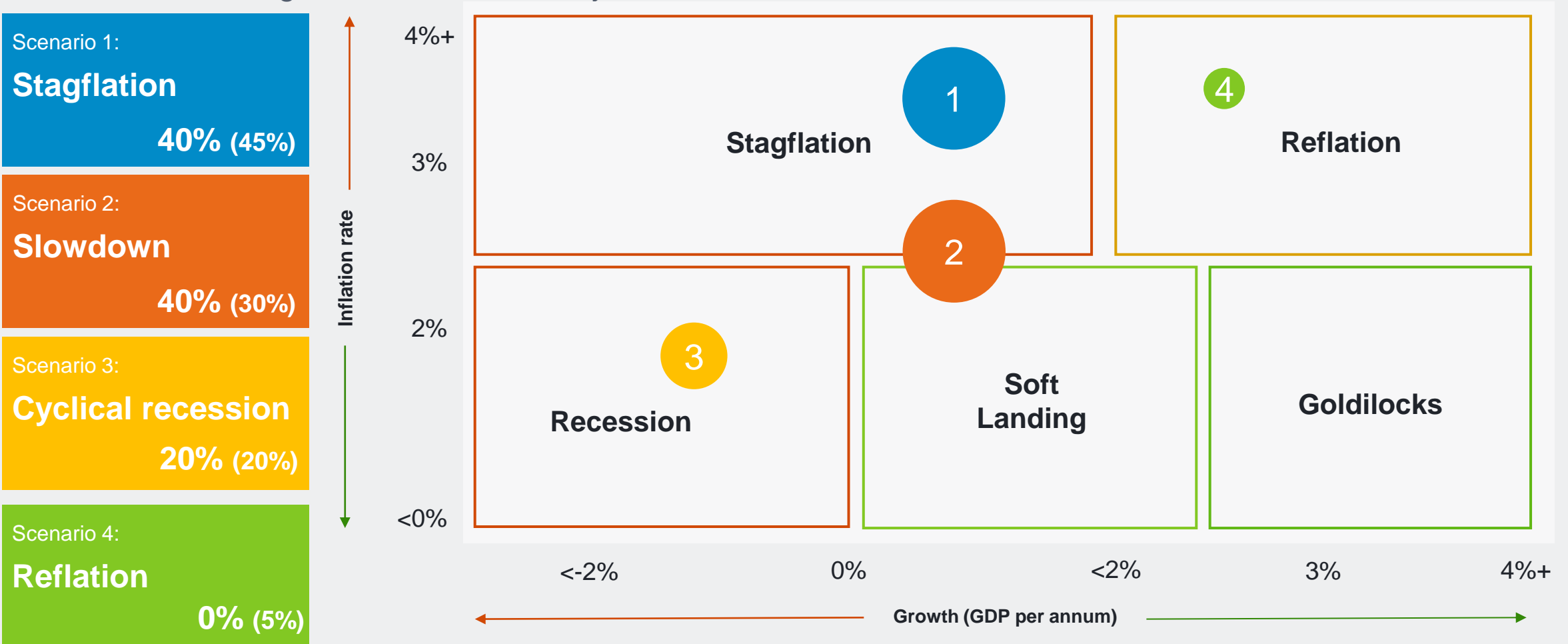
	China isolation	Blanket tariffs	US isolation	Fragmentation
Description	<ul style="list-style-type: none"> End point is to separate China from most of the world economy US succeeds in pulling most ‘allies’ and even some non-aligned (e.g. India) into imposing tariffs/trade barriers onto China in exchange for access to US market 	<ul style="list-style-type: none"> US doesn’t achieve global re-ordering, and so reverts to high ‘reciprocal’ tariffs on all/most countries Effectively US reverting to isolationism Potential variant could be ‘Fortress North America’ in which CA & MX mimic US tariffs 	<ul style="list-style-type: none"> World sees US actions as neo-imperialism, in particular pushing EU into China’s arms EU & China decide to integrate further to cushion their economies from US tariffs US blanket tariffs would remain, with US isolated 	<ul style="list-style-type: none"> Regional blocks are created with US, Europe and China being the main sphere of influence (CPTPP, RCEP, Euro bloc, USMCA) Bilateral trade increases within blocks but overall global trade volume reduces
Biggest loser and macro implications	China: severe negative growth shock through its high exports dependence and inability to re-route to the US	US & World: For US - durably raise inf. & hit TFP growth. For World – remove major market and supply chain link, without alts. created. Also, some China re-routing to US still possible.	US & Eurasian periphery: For US - strategic failure AND a stag. hit. For periphery – deflationary; lose access to multiple markets simultaneously, with China able to compete locally	World: the entire world loses out especially the more open and export dependent economies
Relative winners/losers	Winners: countries seeing increased China competition - e.g. Japan, SK, Taiwan, Germany, India Losers: countries that have got more integrated into China’s supply chain – e.g. Vietnam, Cambodia, Myanmar, etc	Winners: ‘Allies’ able to do deals with the US e.g. CA, MX, UK, JP Losers: All non-allies with US. China and other Asia EMs most impacted (EMAX exports 56% of GDP and 45% directed to US and China)	Winners: China, China integrated (e.g. Cambodia & MY) & EU Losers: US, peripheral DMs (e.g. UK, JP, SK).	Winners: Countries with large domestic markets/more closed economies Losers: open economies on the periphery of the blocks
Final US effective tariff rates	15-20% range: China (+60%), 25% sector tariffs and 10% on ROW with some exemptions	>40%: China +145% with no exemptions and reverting to reciprocal tariff on April 2 nd	(>40%) Same as Blanket tariffs scenario	Effective tariff rates are significantly lower (0-10%) within US blocs/allies and >40% for outside the blocks
Key proponents	Bessent & Greer	Navarro & Lutnick	N/A	N/A

Source: Fidelity International, FIL Global Macro team, September 2025.

US Macro Outlook

Scenarios for the US in 2025

We see slightly lower confidence in upside inflation risks for 2025 as they shift to 2026 and marginally raise our confidence in a US growth slowdown this year.

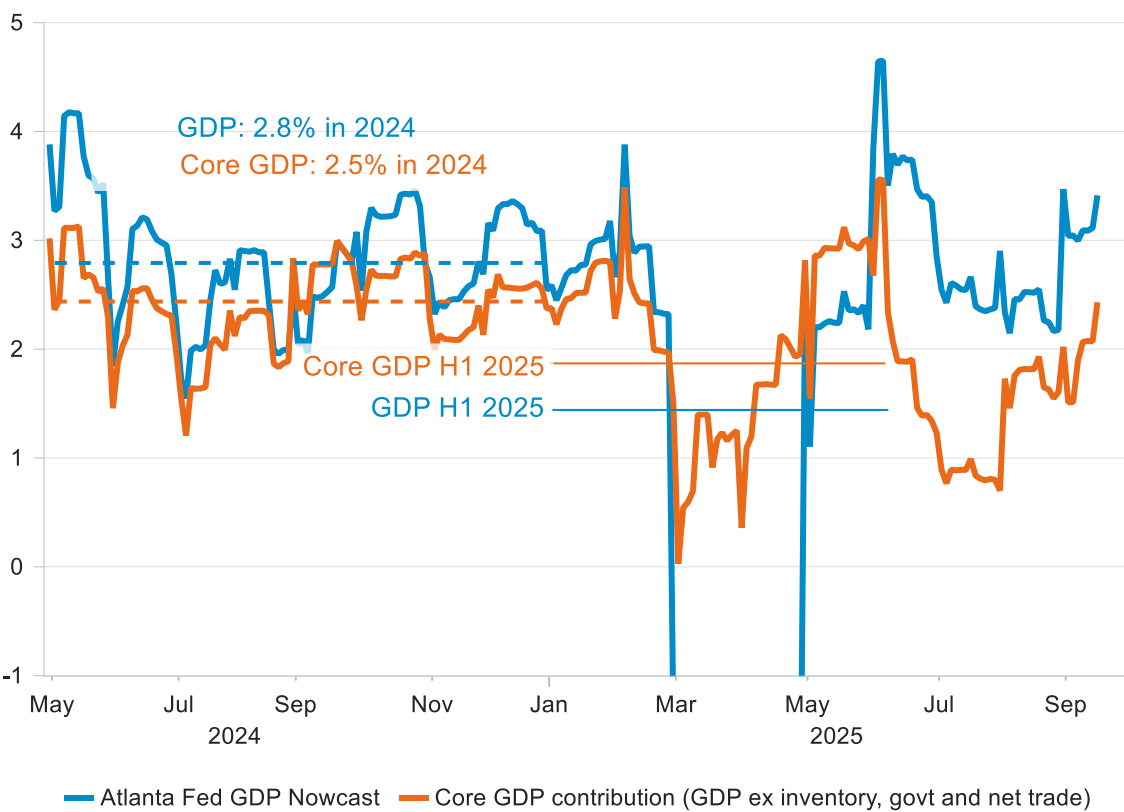


Note: Brackets reflect previous probabilities. Inflation rate measured by US Core Personal Consumption Expenditures Price Index.
Source: Fidelity International, September 2025.

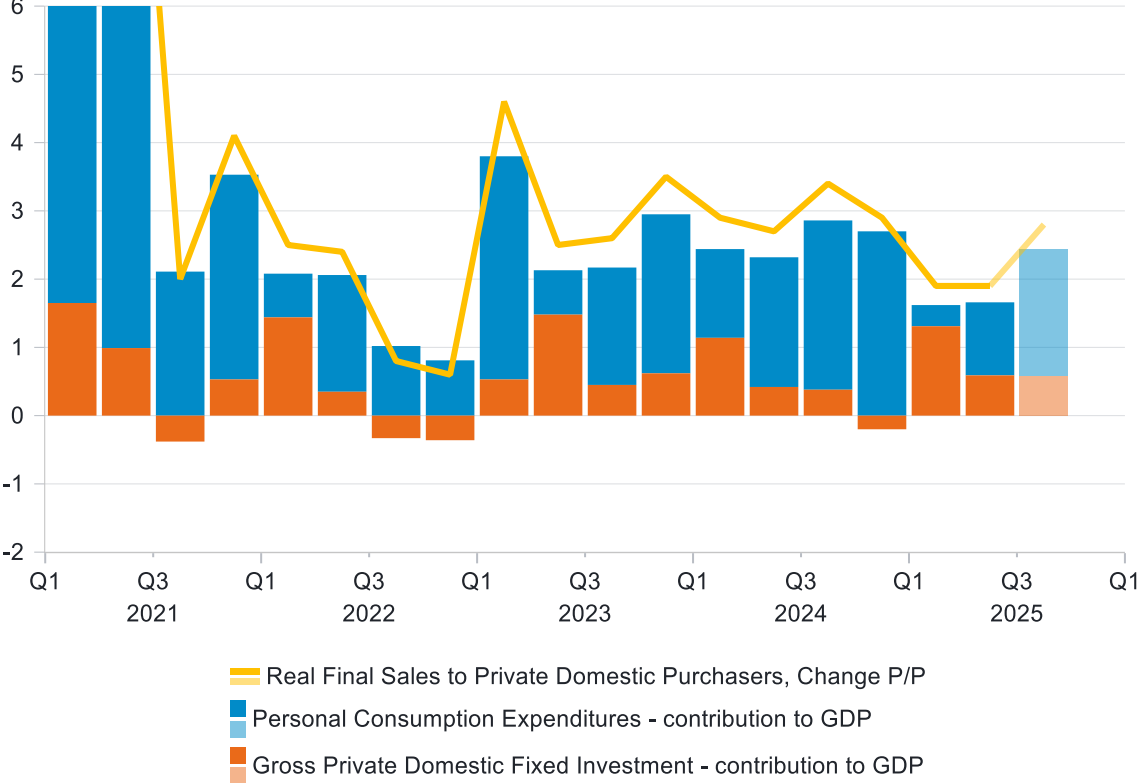
US growth is looking resilient in Q3 2025 after the moderation in H1 2025

Consumer spending and investments hold up despite policy shocks and weaker labour market

US GDP tracking (%QoQ, Saar)



US Core GDP – contributions split (%QoQ, Saar)



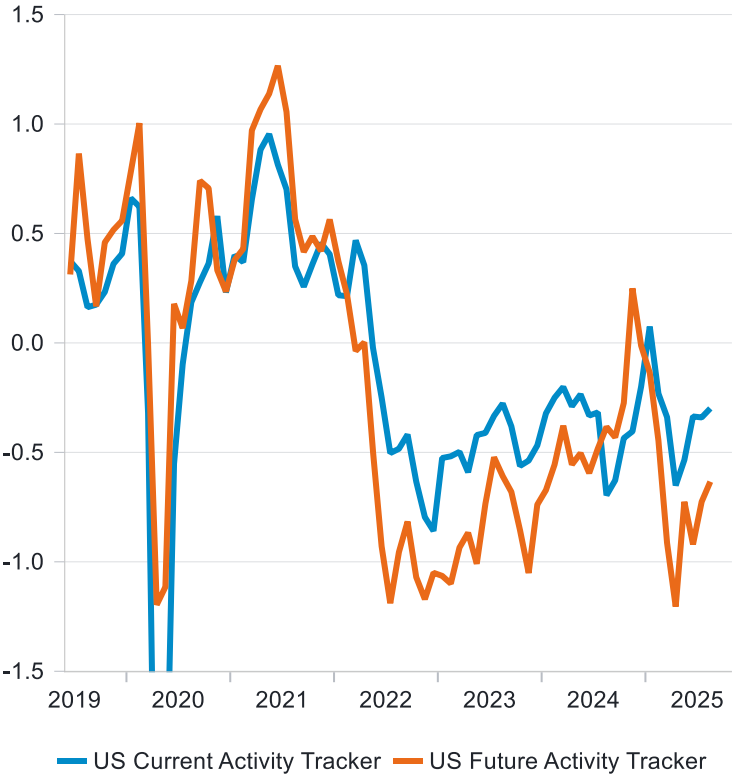
Source: Fidelity International, Macrobond, Federal Reserve Bank of Atlanta, September 2025.

Note: Q3 numbers reflect the Atlanta Fed's GDP nowcast as of September 16th, 2025
Source: Fidelity International, Macrobond, BEA, September 2025.

US activity trackers show sentiments are improving...

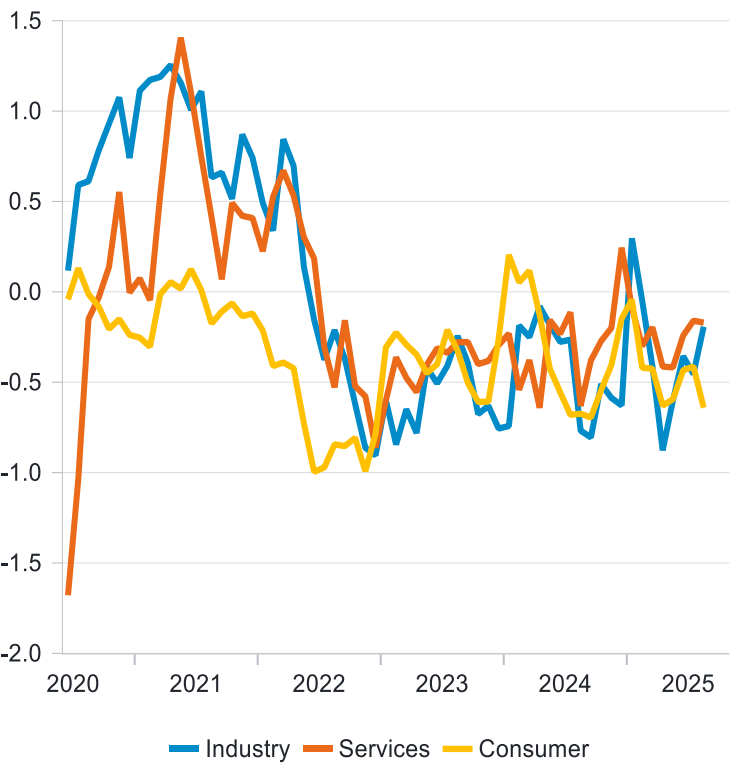
...however, this is mostly noted for businesses while consumer sentiments continue to deteriorate due to weaker labour market and inflationary concerns.

US: CAT and FAT



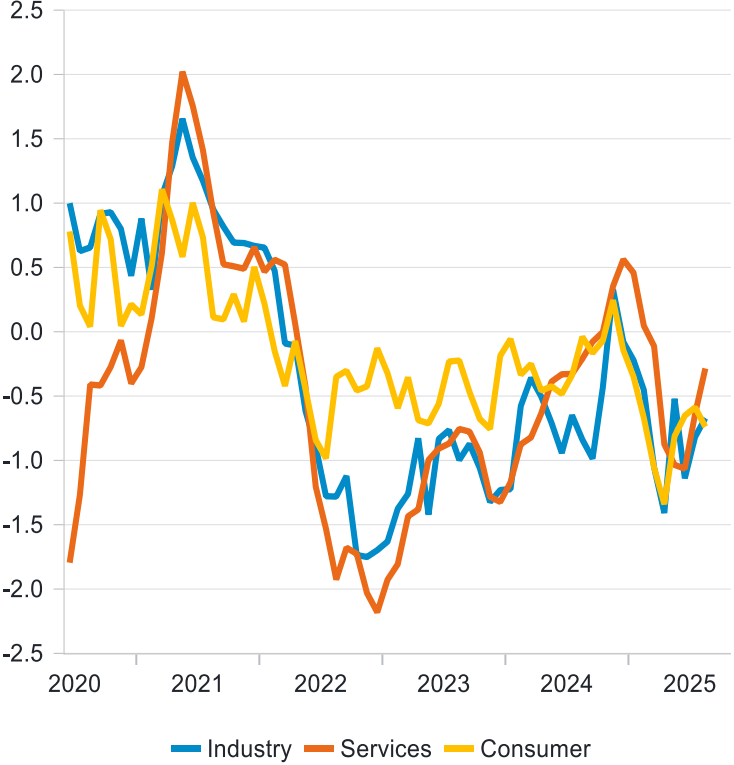
Source: Fidelity International, FIL Global Macro Team calculations, Macrobond, September 2025.

US Current Activity Trackers



Source: Fidelity International, FIL Global Macro Team calculations, Macrobond, September 2025.

US Future Activity Trackers

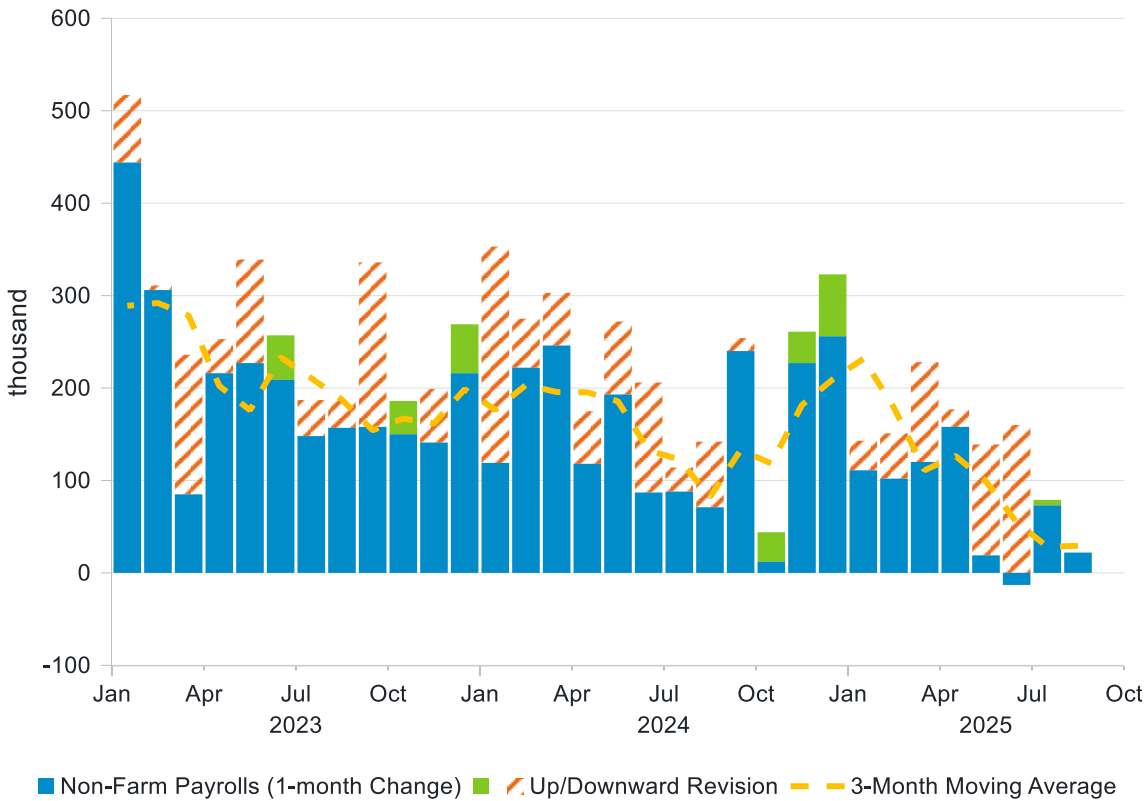


Source: Fidelity International, FIL Global Macro Team calculations, Macrobond, September 2025.

Payroll growth has fallen substantially...

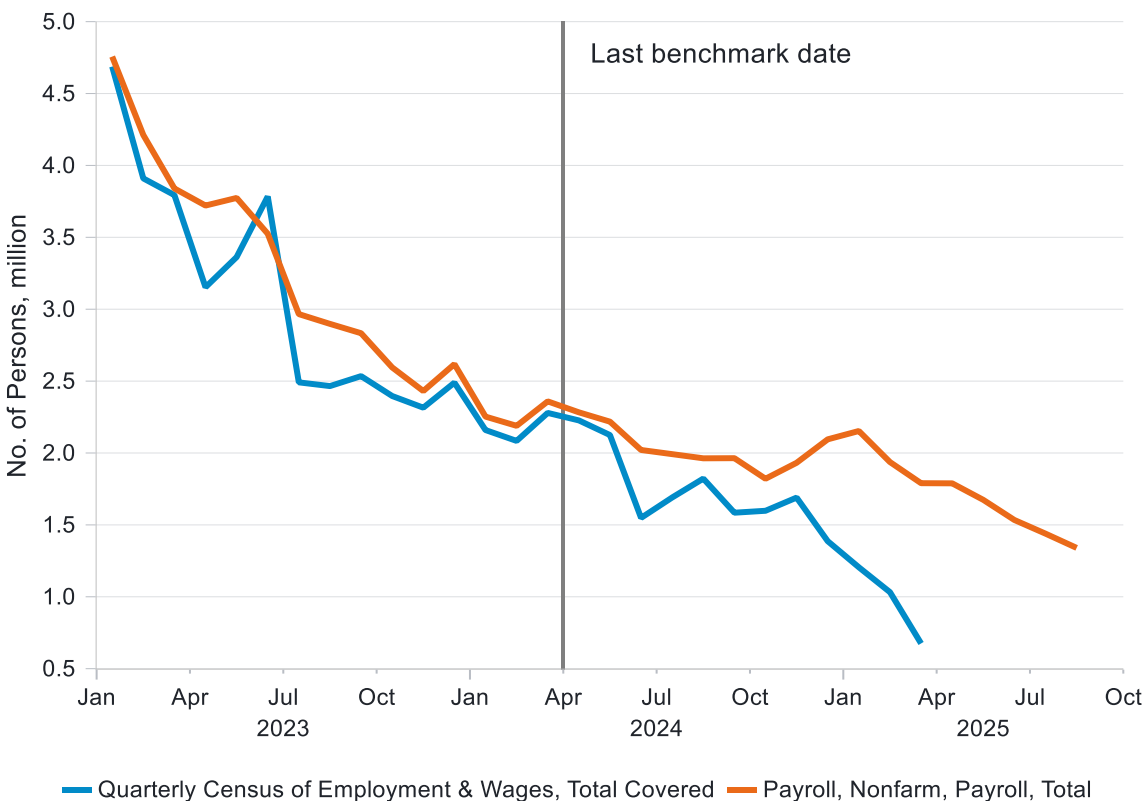
...with Quarterly Consensus of Employment & Wages (QCEW) revisions suggesting we are in negative payrolls territory already.

US Non-farm payrolls



Source: Fidelity International, Macrobond, BLS, September 2025.

US employment, payrolls vs QCEW (12M change, NSA)

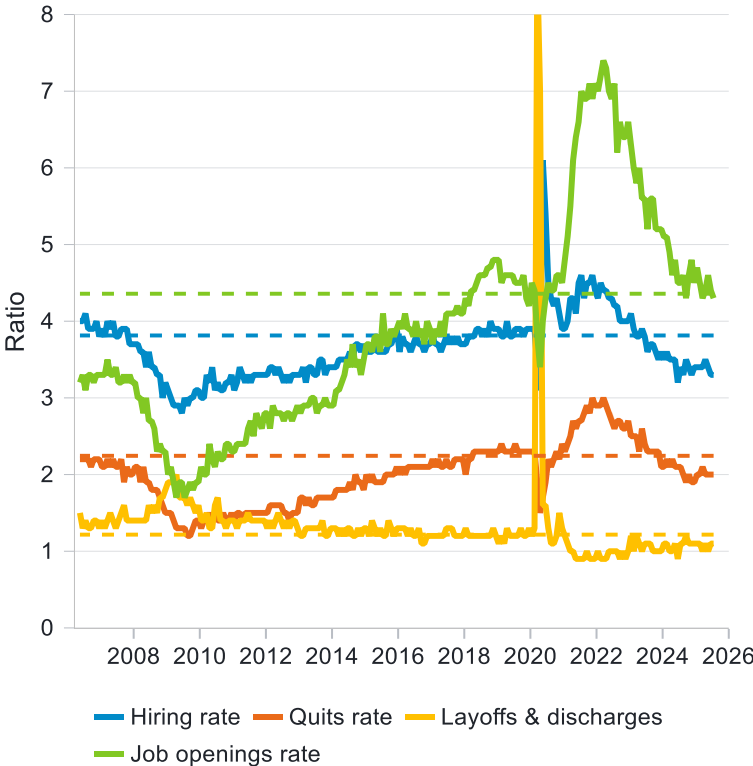


Source: Fidelity International, Macrobond, BLS, September 2025.

Broader labour market indicators also signal increased downside risks...

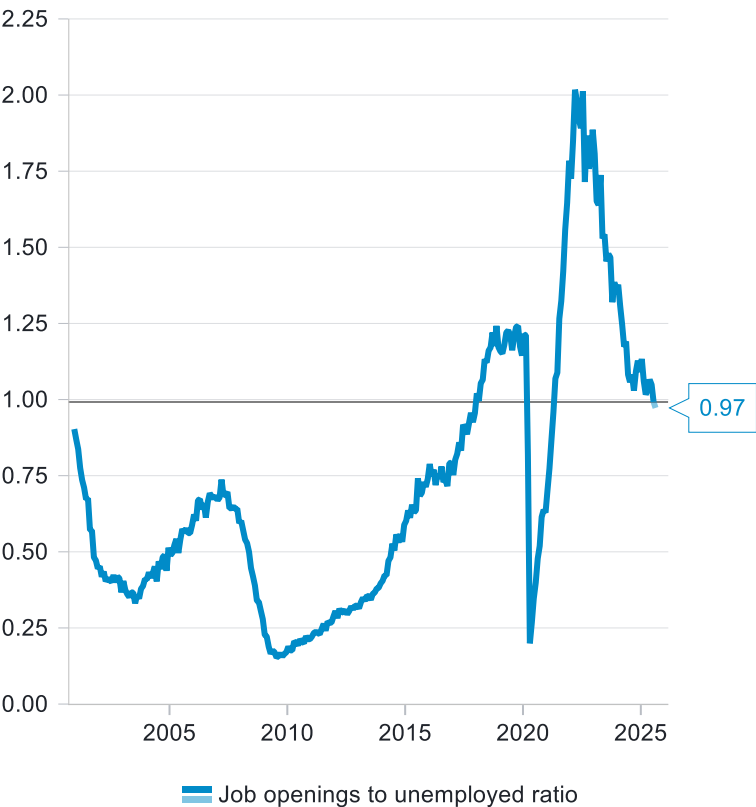
...and we are treading closer to the inflection point where unemployment rate could increase rapidly.

US Jobs Openings and Labor Turnover (JOLTS) data



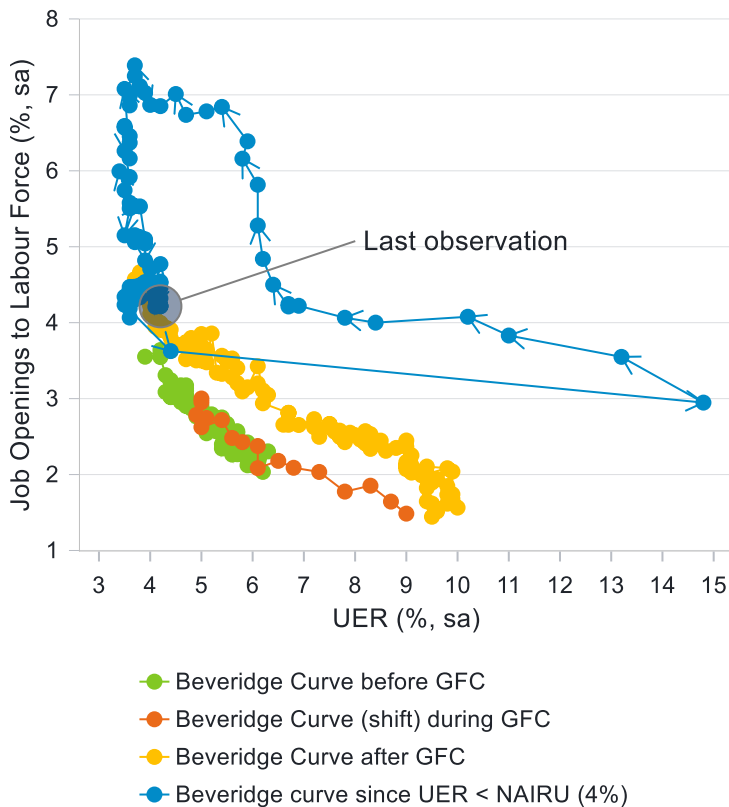
Note: dotted lines are pre-COVID averages between 2017-2019
Source: Fidelity International, Macrobond, BLS, September 2025.

US job openings to unemployed ratio



Source: Fidelity International, Macrobond, BLS, September 2025.

US Beveridge curve

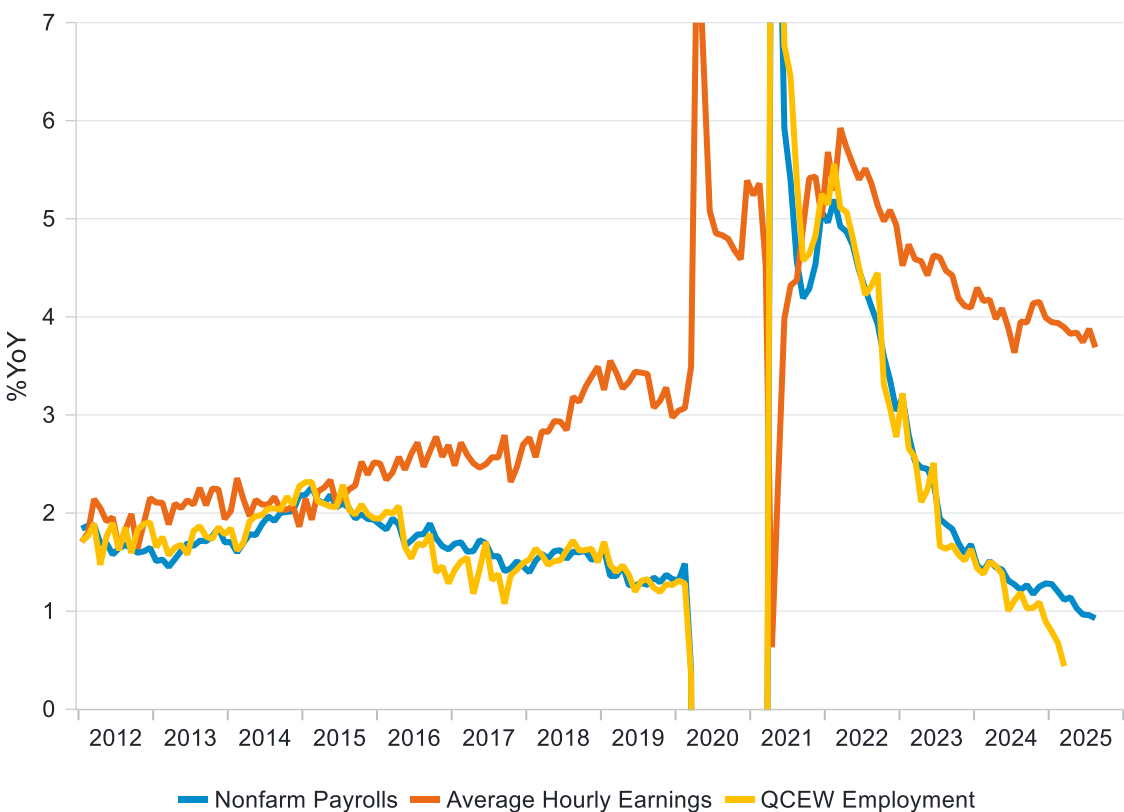


GFC – Global Financial Crisis
UER – Unemployment rate
Source: Fidelity International, Macrobond, BLS, September 2025.

Wages are slowing, though still holding up, keeping purchasing power supported...

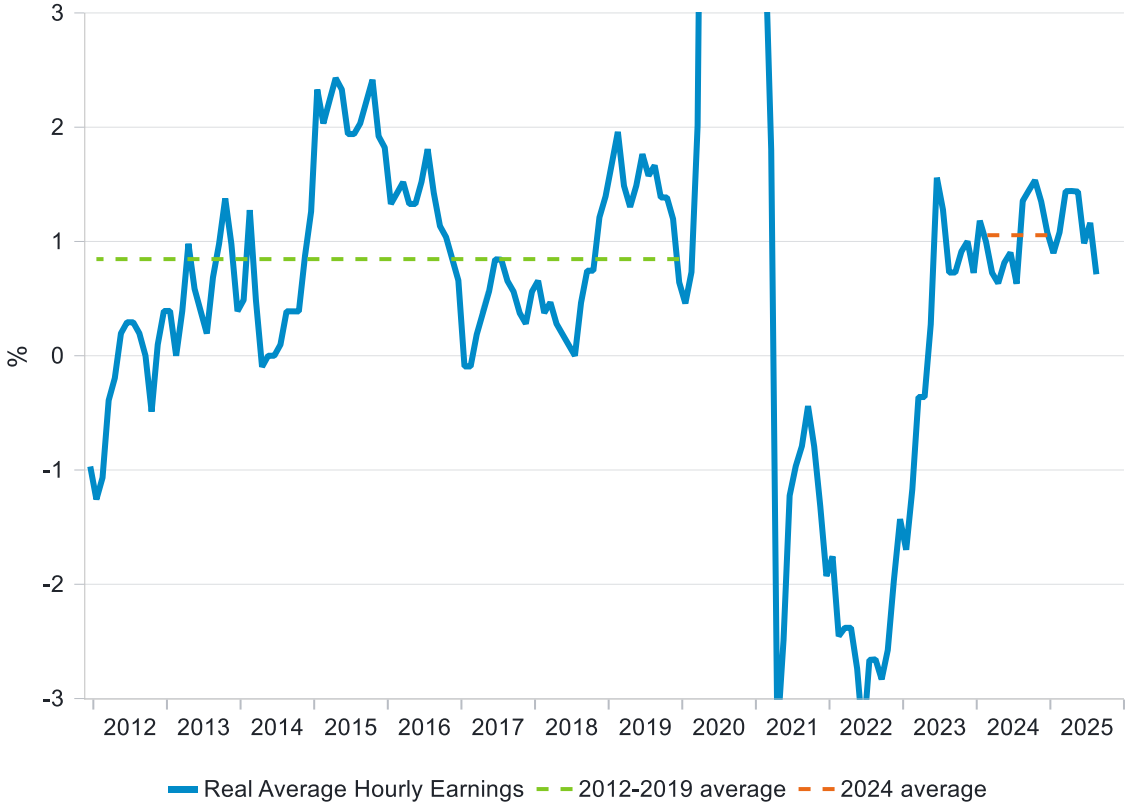
...however, real incomes are likely to get squeezed with further slowing in earnings and inflation pressures.

Payrolls vs earnings



Source: Fidelity International, Macrobond, BLS, September 2025.

Real average hourly earnings (%YoY)

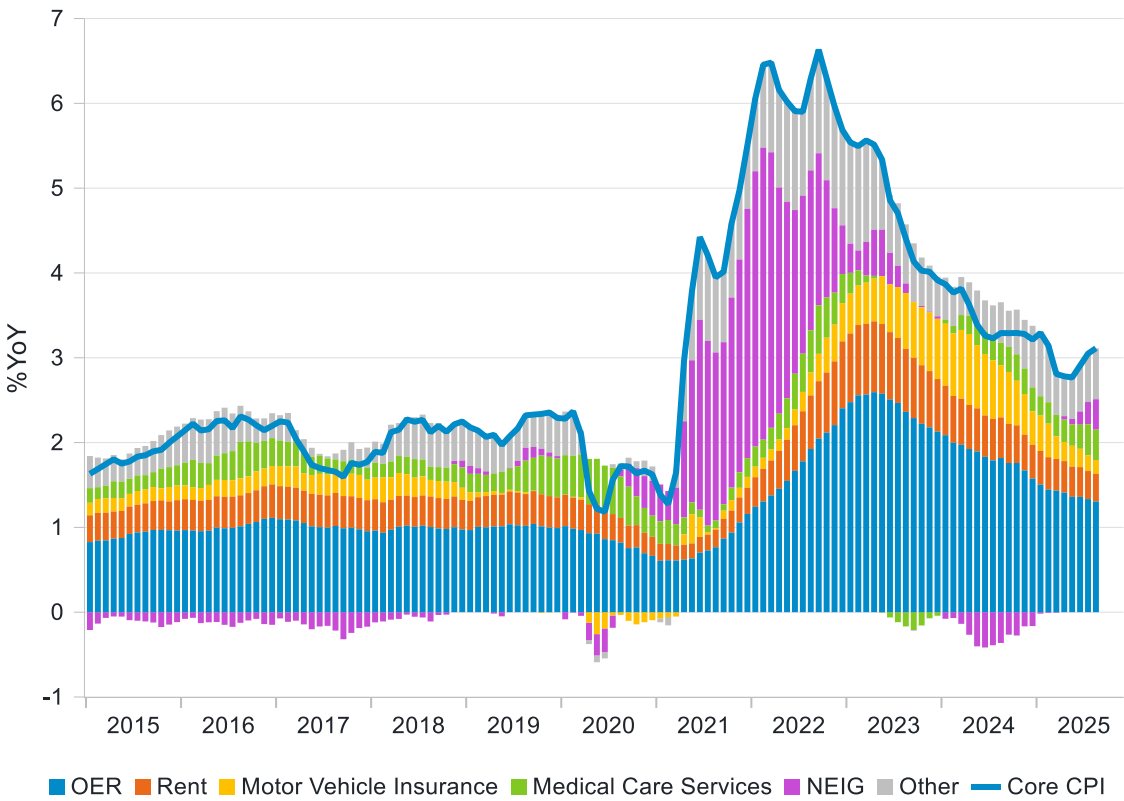


Source: Fidelity International, Macrobond, BLS, September 2025.

Inflation is firming up but has been slower than anticipated...

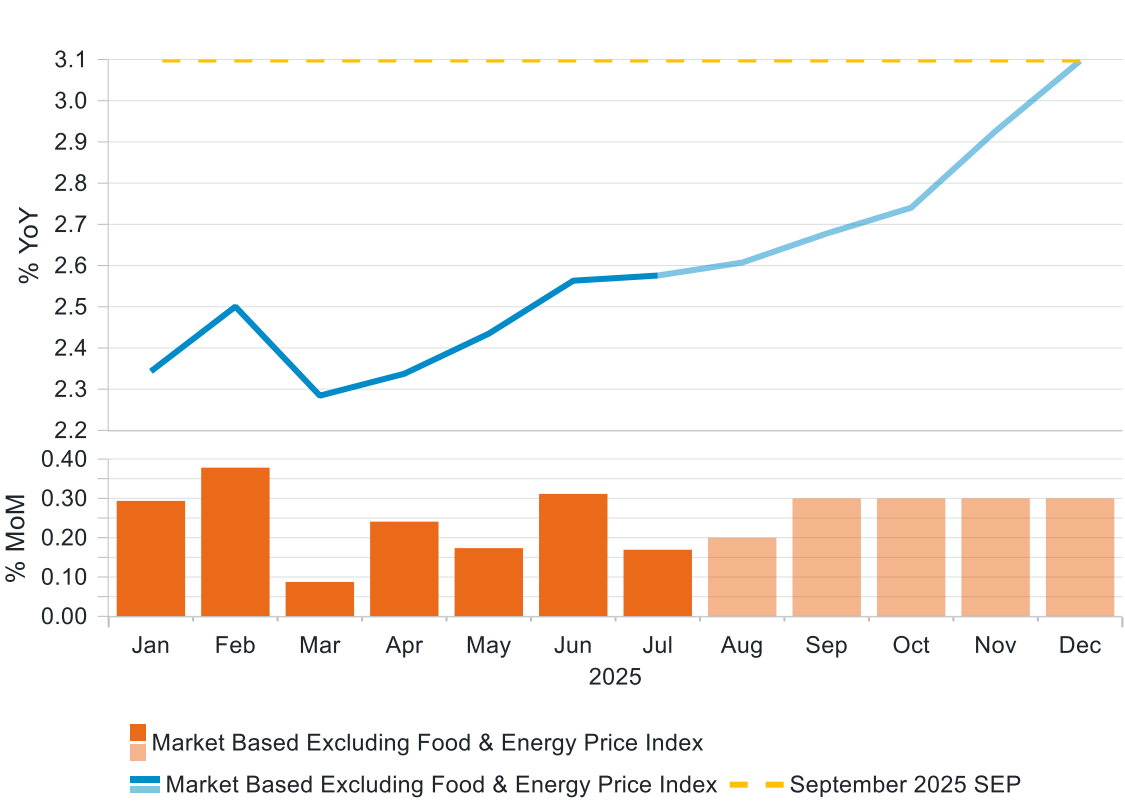
...with tariff effects still mild. At current pace Fed should not be far from its median 2025 target

Core CPI contribution breakup by components



Source: Fidelity International, Macrobond, BLS, September 2025.

Forecasting Core MPO PCE - 2025



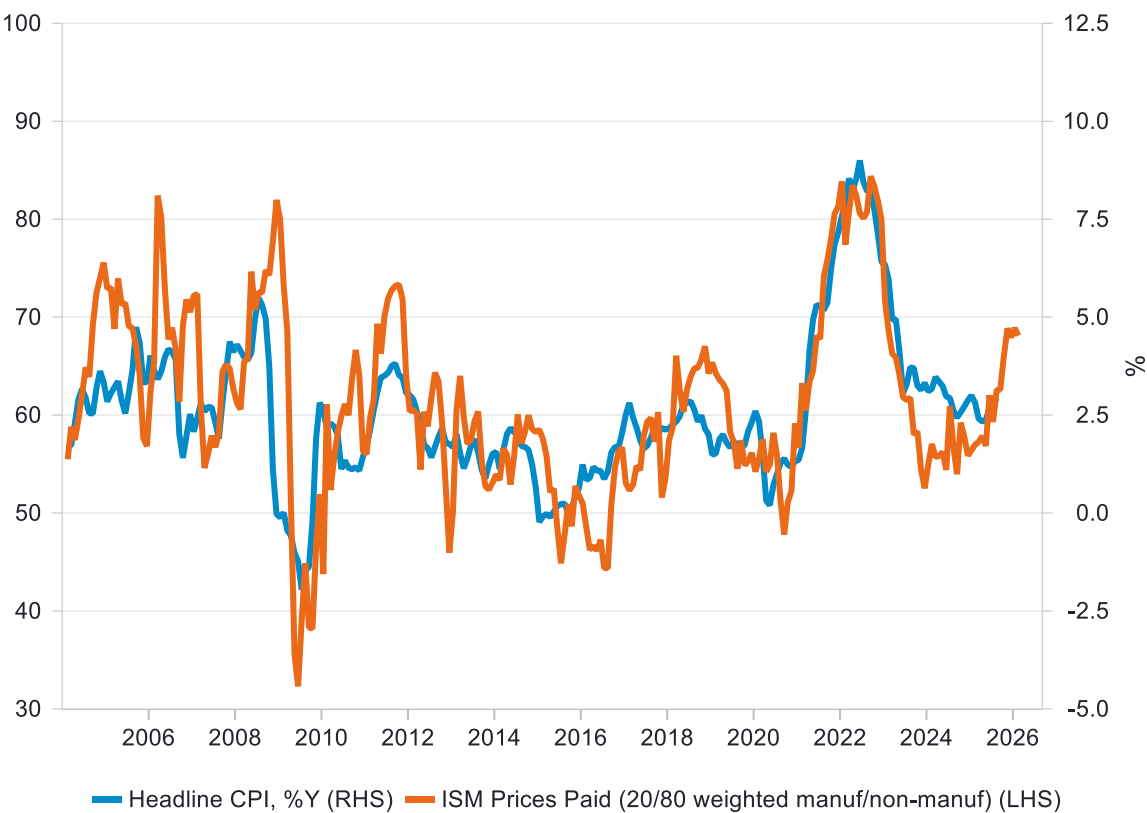
MPO – Market Price Only

Source: Fidelity International, Macrobond, BEA, September 2025.

Inflation upside risks remain in the pipeline...

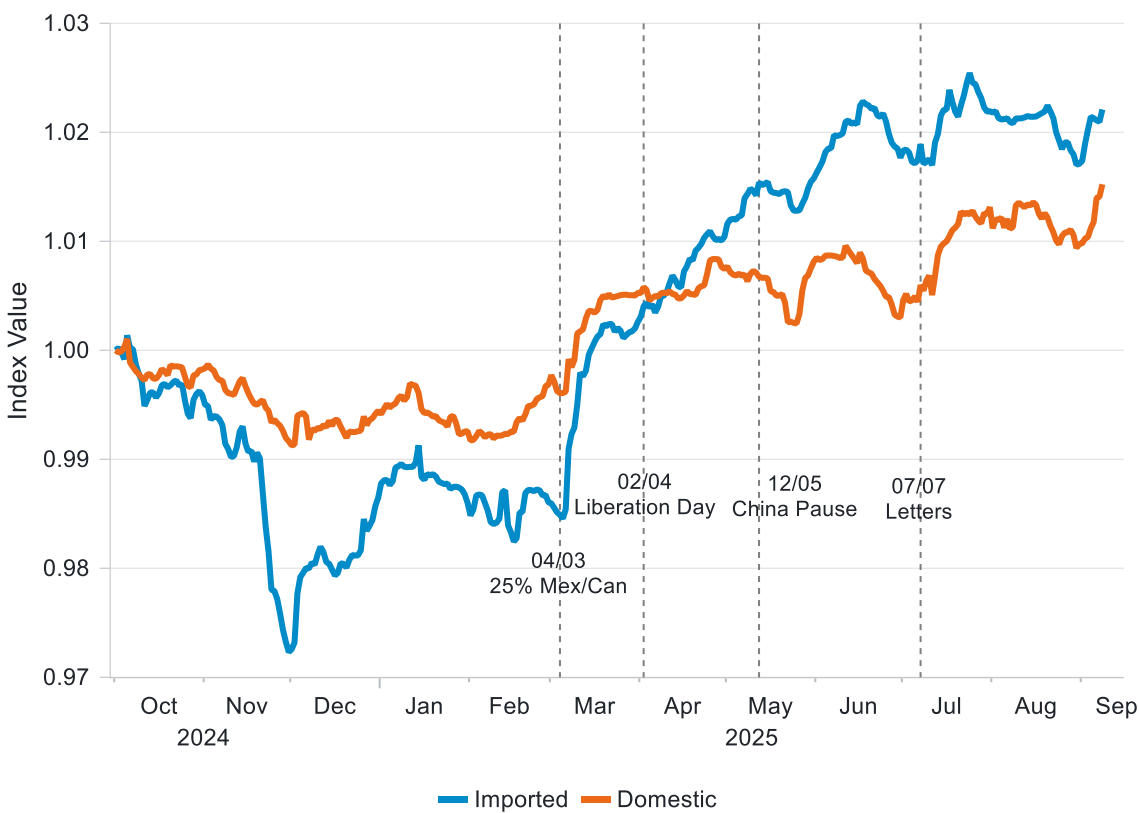
...as businesses continue to receive higher prices and are yet to pass to consumers meaningfully.

CPI vs ISM price component



Source: Fidelity International, Macrobond, ISM, BLS, September 2025.

Final Price indices of goods sold by major US retailers

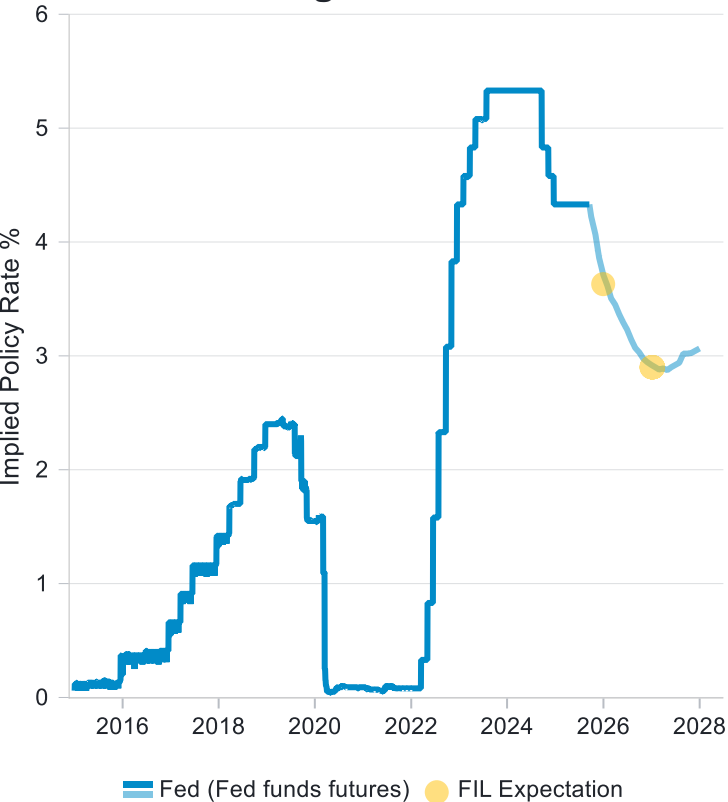


Source: Fidelity International, Macrobond, Cavallo, Llamas & Vazquez (2025), PriceStats/State Street, September 2025.

Fed restarted its cutting cycle in September as risks skew towards labour market

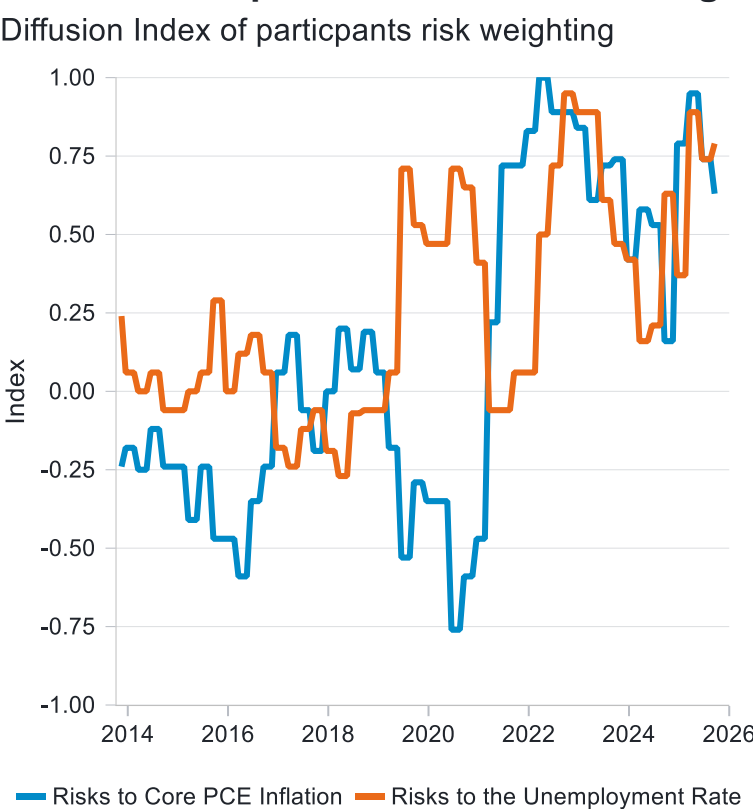
Fed remains in a meeting-by-meeting mode and balance of data will dictate pace of future cuts

Fed Market Pricing



Source: Fidelity International, Federal Reserve, September 2025.

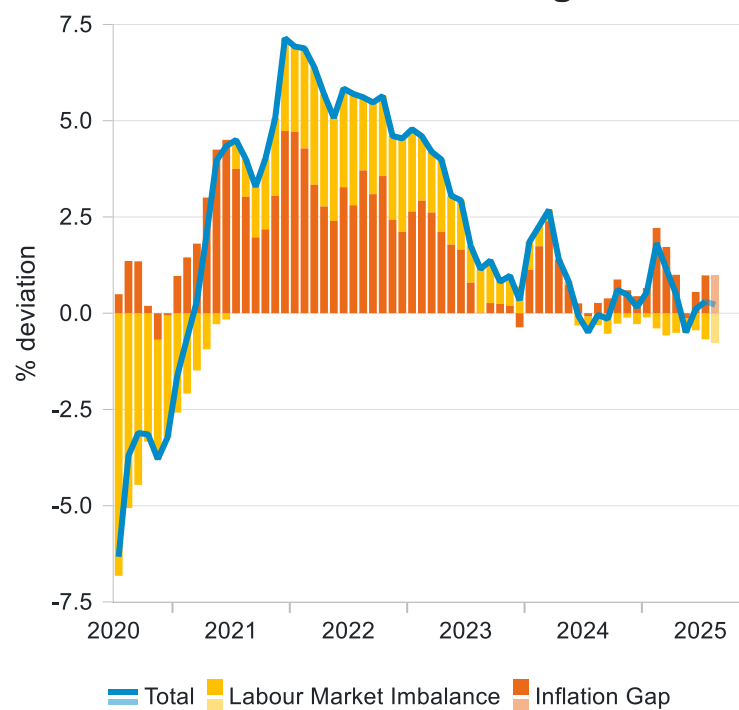
FOMC* sees upside inflation risks falling



*FOMC – Federal Open Market Committee

Source: Fidelity International, Macrobond, Federal Reserve, September 2025.

Risks to Fed mandate becoming two-sided






Note: inflation gap = difference between core PCE 3MA rate and Fed's target. Labour market imbalance = excess/shortage of labour divided by total labour force. Labour excess shortage is defined as the difference between cumulative labour demand and labour supply since 2019.
Source: Fidelity International, Macrobond, BEA, BLS, September 2025.

FOMC divided in three camps

Fed restarted its cutting cycle in September but remains divided with respect to the pace of future cuts



Voter in both years / Voter in 2025 Only / Voter in 2026 Only / Non-voter in both years

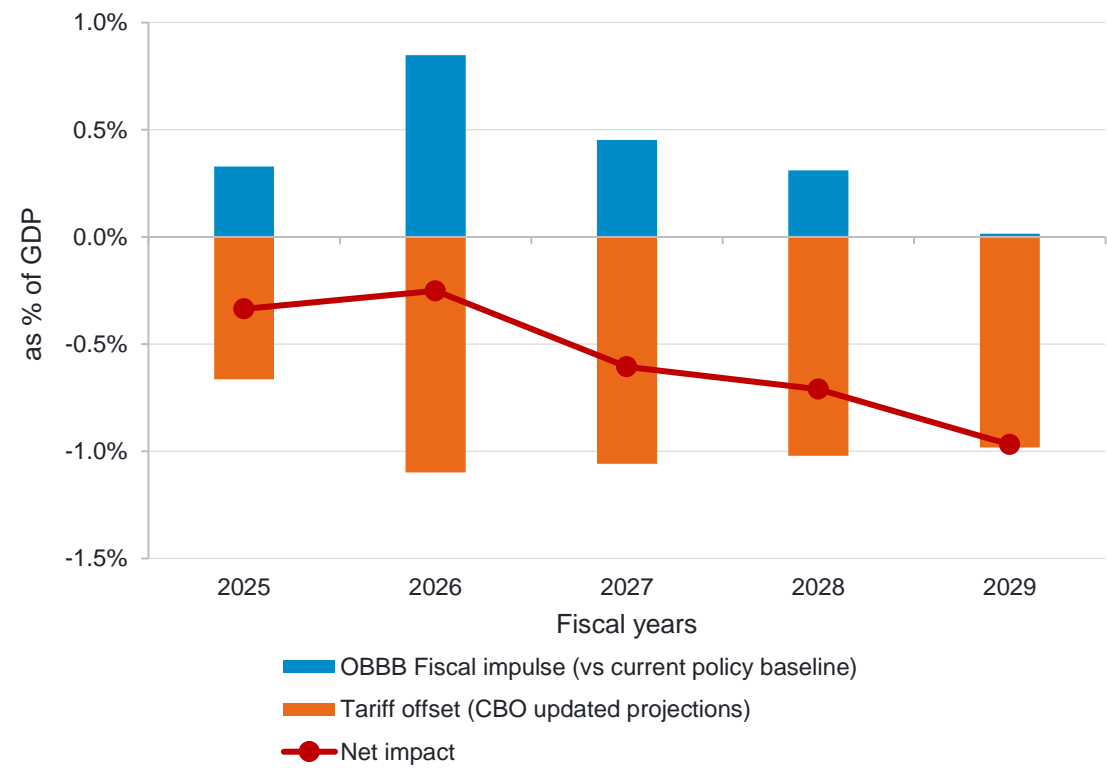
Resurrected Cutters	Classic Doves	Classic Hawks
<div></div> <div><i>Advocating for cuts as much to get the attention from the President: <u>quickly cut to neutral</u> <u>>=4 cuts</u></i></div> <div><ul style="list-style-type: none">▪ Waller▪ Bowman▪ Stephen Miran</div>	<div></div> <div><i>more weight on the weakening labour market :>= 2 cuts</i></div> <div><ul style="list-style-type: none">▪ Jefferson▪ Barr▪ Paulson▪ Kashkari▪ Logan▪ Daly▪ Bostic</div>	<div></div> <div><i>Still cautious about inflation and proceed slowly: <= 1 cut</i></div> <div><ul style="list-style-type: none">▪ Powell▪ Williams▪ Cook▪ Collins▪ Schmid▪ Musalem▪ Goolsbee▪ Hammack▪ Barkin</div>

FOMC – Federal Open Market Committee
Source: Fidelity International, Federal Reserve, September 2025.

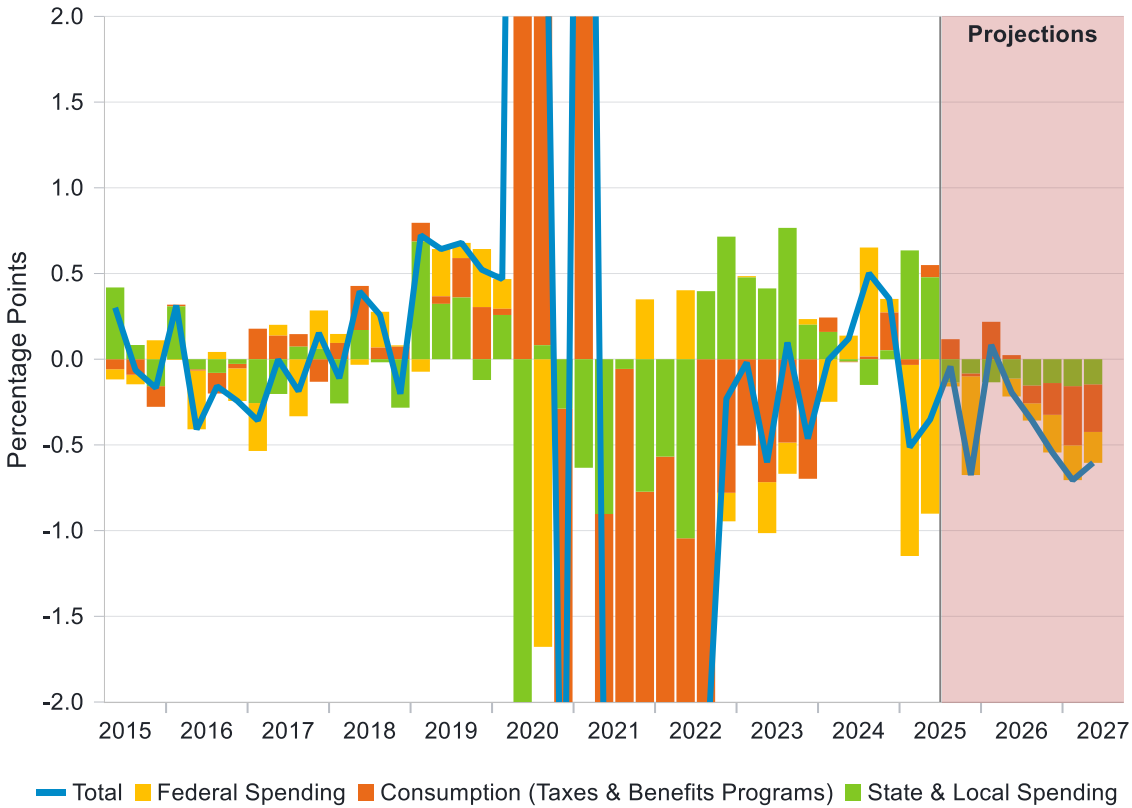
Fiscal policy looks supportive in H1 2026 as tax refunds from OB BB* kick in...

...however, the surge in tariff collections imply a greater drag on growth elsewhere. This likely improves fiscal consolidation.

Net fiscal impulse: OB BB vs tariff offset



Hutchins Center Fiscal Impact measure



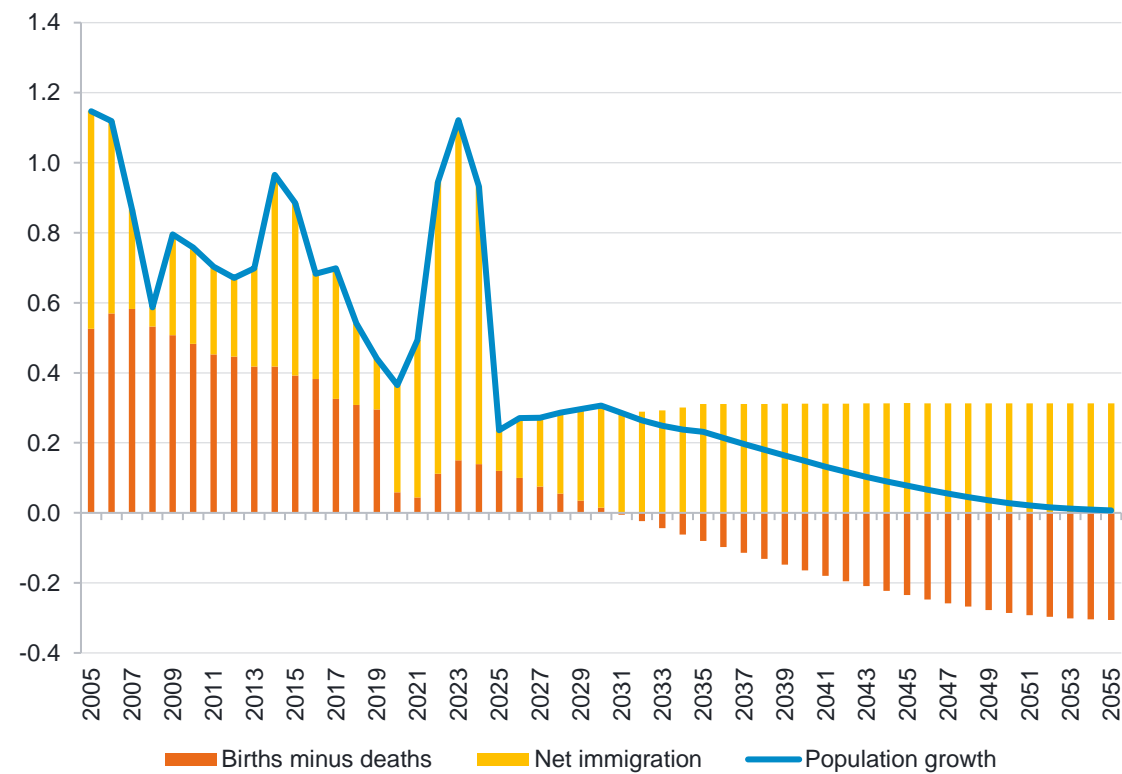
*OB BB – One Big Beautiful Bill
Source: Fidelity International, CBO, September 2025.

Source: Fidelity International, Macrobond, Hutchins Center on Fiscal & Monetary Policy, September 2025.

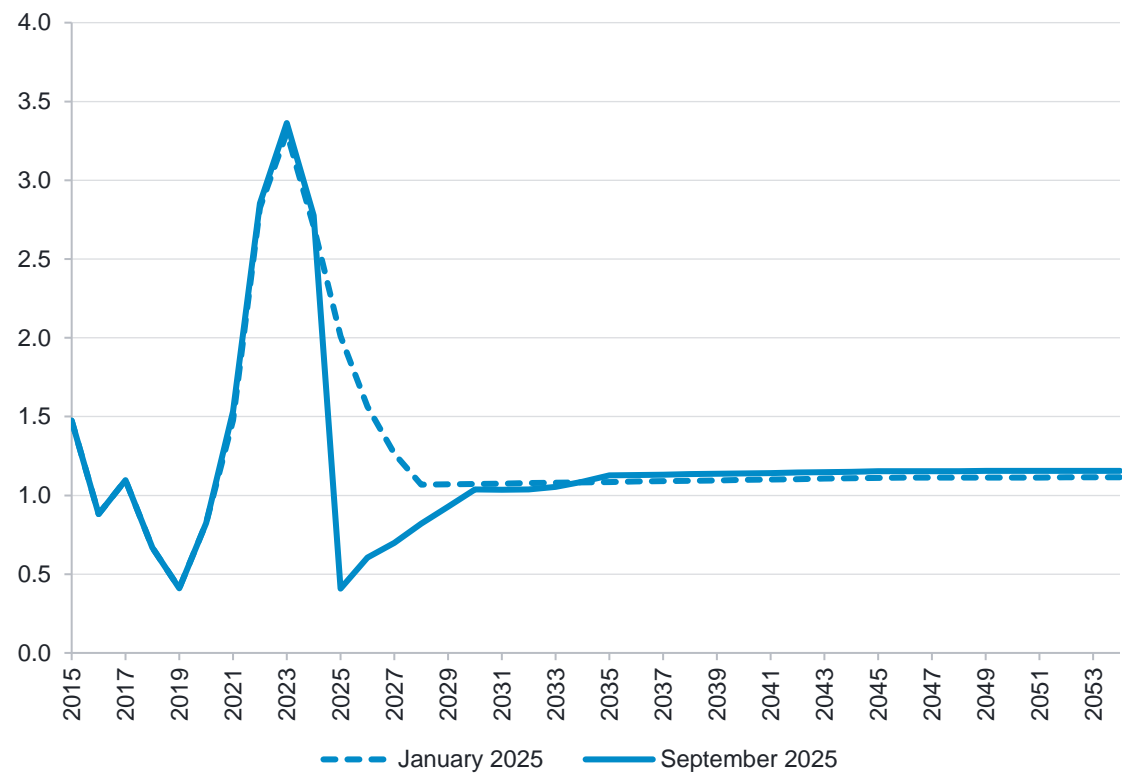
Congress Budget Office's (CBO) latest demographic projections show net immigration has slowed drastically

This is likely to translate to lower potential GDP and fewer jobs growth

CBO US population growth and contributing factors



CBO Net immigration estimates (millions of people)



Source: Fidelity International, CBO, September 2025.

Geoeconomic Strategy: tracking the emerging blocks

The three R's of the US' grand geoeconomic strategy

Retrench, rebuild, and repair

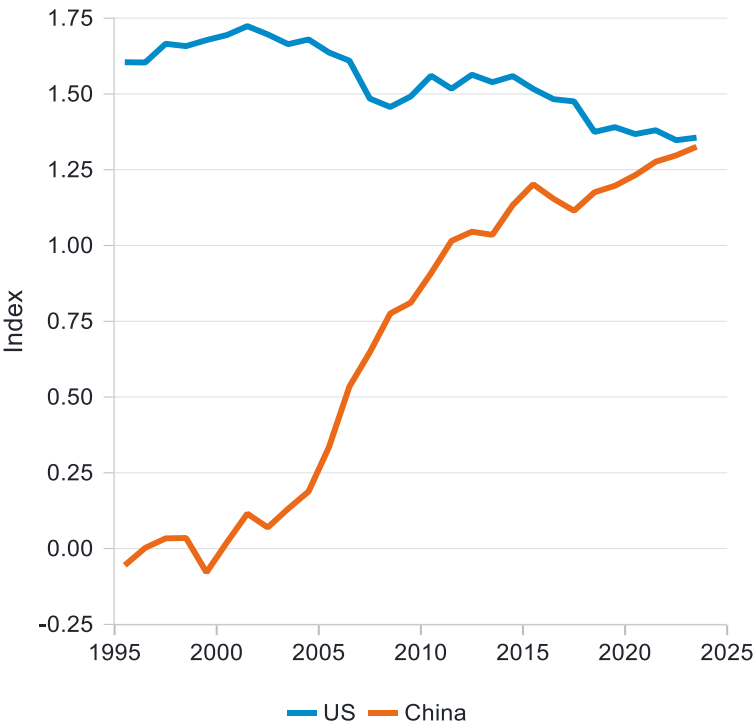
Retrench to a more prescribed 'sphere of influence'

- **Core:** North America
- **Near abroad:** the Latin Americas + UK
- **Peripheral "client states":** EU + Pacific Rim (Japan, South Korea, Taiwan)
- **Discarded allies:** Ukraine, India, Australia (??)

Source: Fidelity International, September 2025

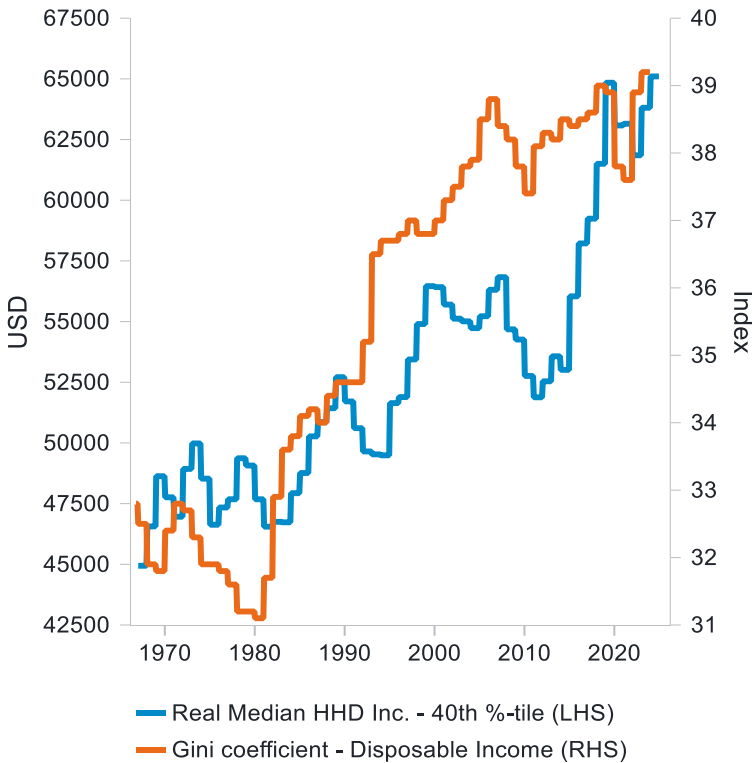
Rebuild a manufacturing industrial base
Key industries: chips, ships & arms

Economic Complexity Indices



Source: Fidelity International, Macrobond, OEC, September 2025.

Repair a left behind the middle class



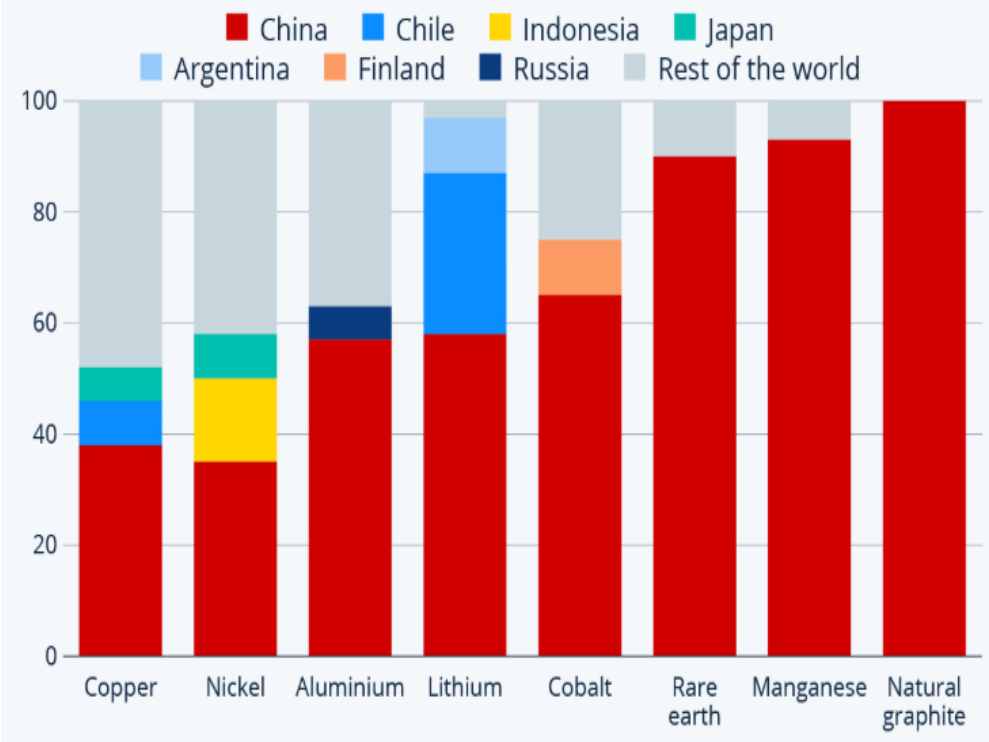
Source: Fidelity International, Macrobond, BLS, USCB, NAR, FSOLT, September 2025.

Key constraints facing US grand geoeconomic strategy

The risks associated with pushing China too hard

Chinese rare Earth refining capacity

Top countries by share in global processing of selected critical minerals in 2023 (%)

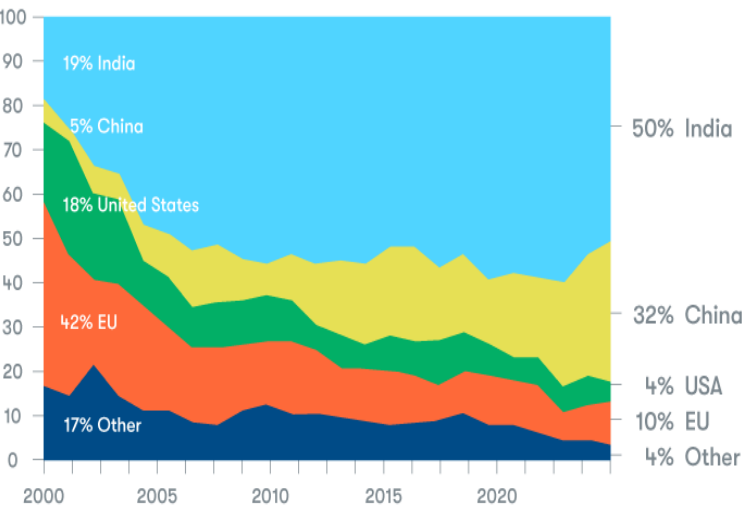


Source: Fidelity International, Statista, UNCTAD, OECD, September 2025

China has become an unavoidable node in the global medicine supply chain

Active API Drug Master Files

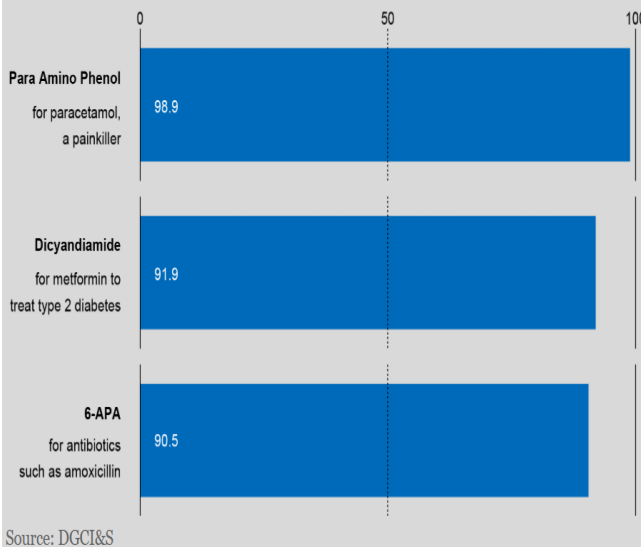
By year of filing and region of manufacture



Source: Fidelity International, USP medicine supply map, September 2025

India relies on China for many API raw materials

China's share of imports, 2020-21 (in percent)



Source: DGCI&S

Source: Fidelity International, Nikkei, DGCI&S, September 2025

Key constraints facing US grand geoeconomic strategy

The risks associated with pushing US Asian allies too hard

Forget the Island Chains, China’s Geographical Fulcrum Is in US Dominated Waters



Source: Fidelity International, Clocktower Group, September 2025.

US naval dominance of the region has always been predicated on allied warships. Can these still be relied upon??

Naval Forces								
		China	US	Japan	Korea	India	Australia	US & Allies Total
Principal Surface Combatants	Aircraft carriers	2	11	4	0	1	0	16
	Destroyers	31	68	38	0	10	3	119
	Cruisers	1	24	3	0	0	0	27
	Frigates	46	21	6	2	17	8	54
Total		80	124	51	2	28	11	216
Submarines	Nuclear propulsion + nuclear armed	6	14	0	0	1	0	15
	Nuclear propulsion	6	54	0	0	1	0	55
	Conventional	29	0	11	71	14	6	102
	Air independent propulsion	18	0	10	0	0	0	10
	Lithium-ion battery propulsion	0	0	1	0	0	0	1
Total		59	68	22	71	16	6	183

Source: The Military Balance, 2021.

Source: Fidelity International, Clocktower Group, The Military Balance (2021), September 2025.

Tracking the emerging Eurasian union

Grouping of Russia, Iran, North Korea and India (??), with China at the core is emerging

With 42% of the global population and 32% of the global GDP, the Shanghai Corporation Organization clearly has the breadth and depth to match Western groupings

Regional footprint of the Shanghai Corporation Organization



Source: Wikimedia Commons, September 2025

New gas pipeline strengthen ties between Russia and China



Source: Global Energy Monitor
Note: Data as of December 2024. Power of Siberia 2 route is based on estimates

Source: Bloomberg, September 2025

Indian Ocean–Gulf nexus is emerging as a key pivot point in this Great Game 2.0. How the states in this region align themselves will be highly determinative.

Modi's actions at the SCO, were, at the very least, optionality building



In this pool photograph distributed by the Russian state agency Sputnik, Putin, from left, with Modi and Xi during the Shanghai Cooperation Organisation (SCO) Summit in Tianjin, on Sept.

Source: Fidelity International, Bloomberg, AFP/Getty Images, September 2025

Saudi Arabia signs a mutual defence pact with nuclear-armed Pakistan



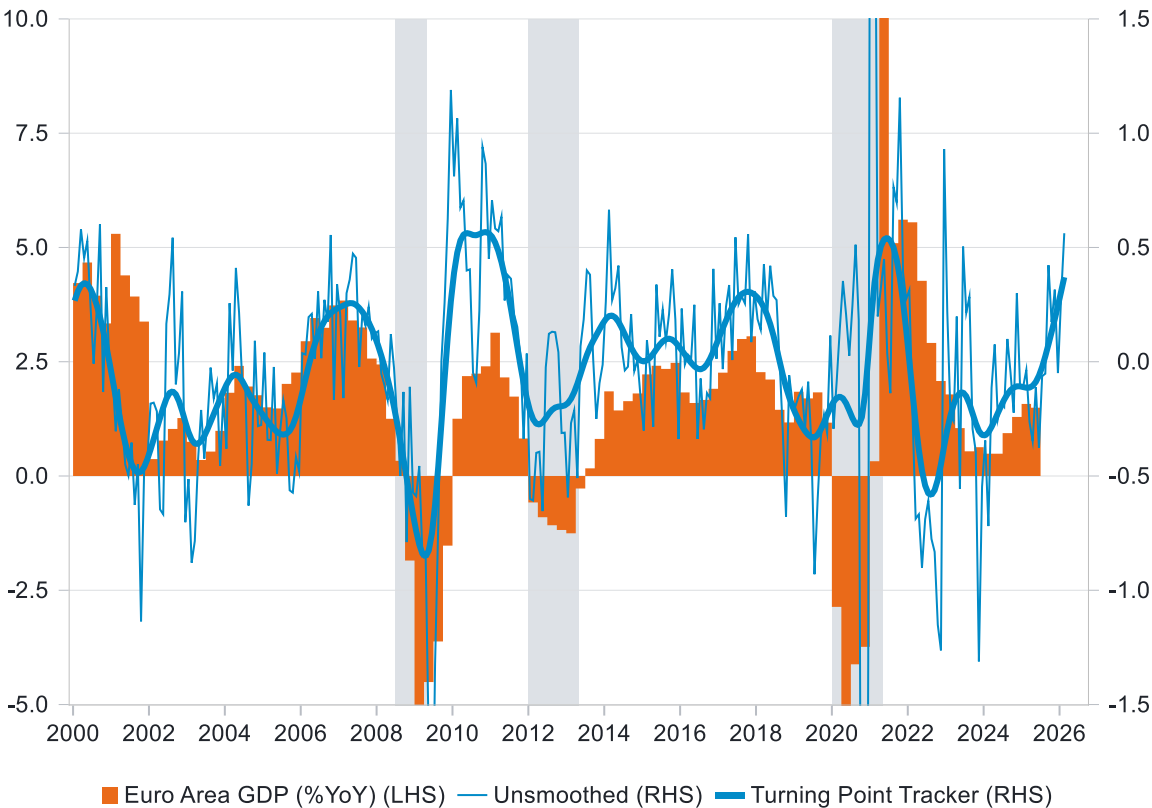
Source: Fidelity International, Saudi Press Agency via AP, September 2025

Europe Macro Outlook

Euro Area (EA): Growth in Q1 was robust led by front-loading, and is now reversing...

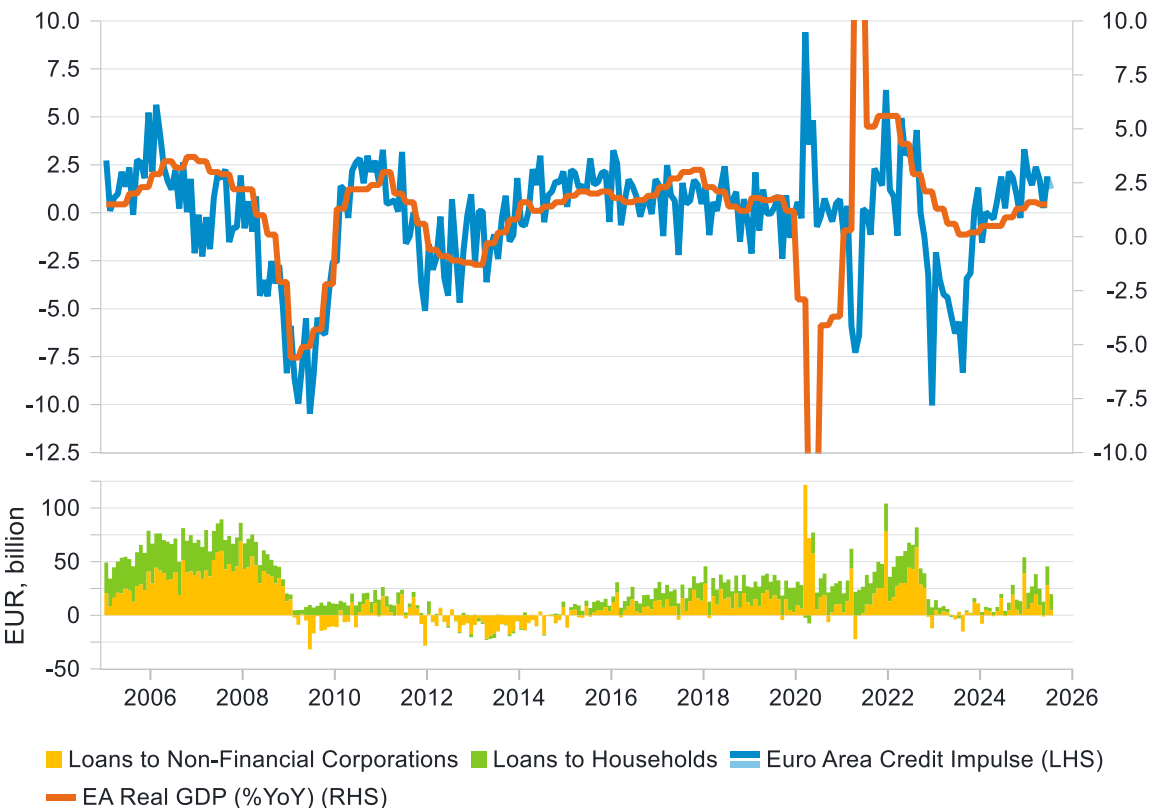
...but underlying growth remains at trend. Credit cycle remains supported, and activity is showing resilience

Turning Point Tracker showing signs of improvement ..



Source: Fidelity International, Macrobond, DG ECFIN, Eurostat, S&P Global, September 2025.

... and credit growth seems to have picked up on lower rates.

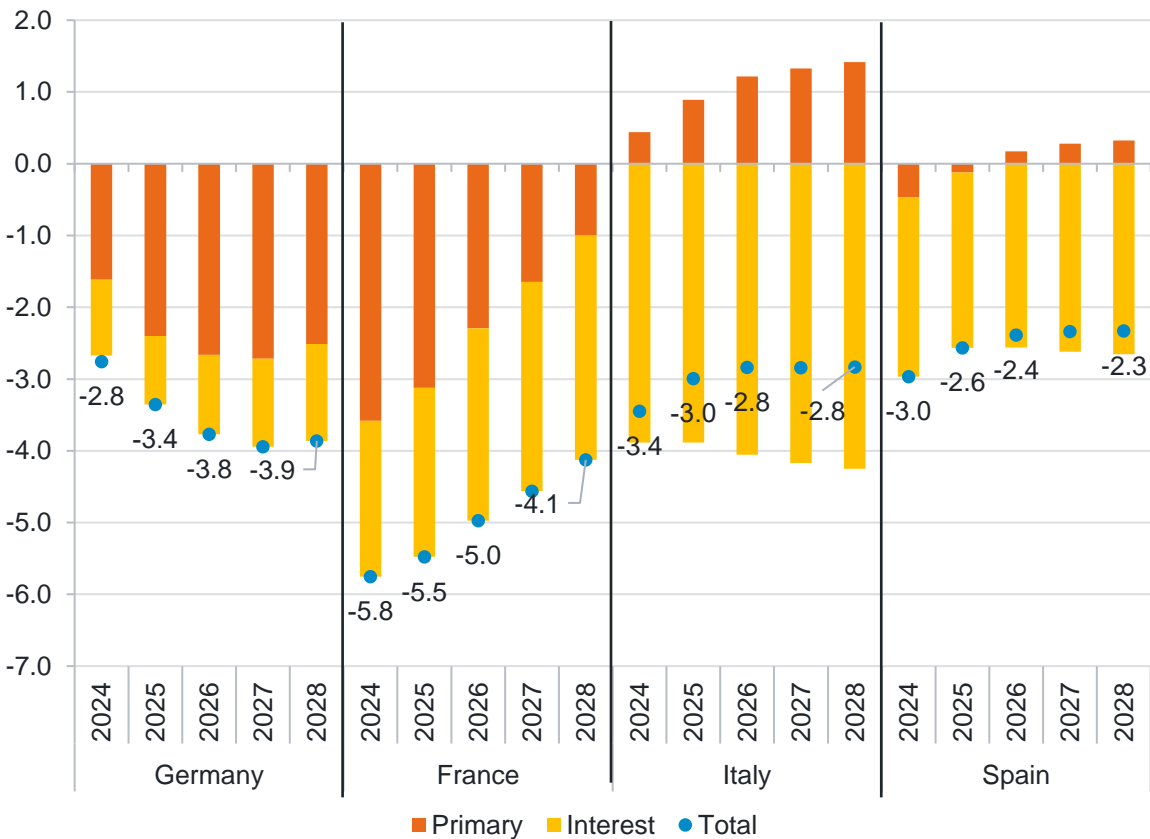


Source: Fidelity International, Macrobond, ECB, Eurostat, September 2025.

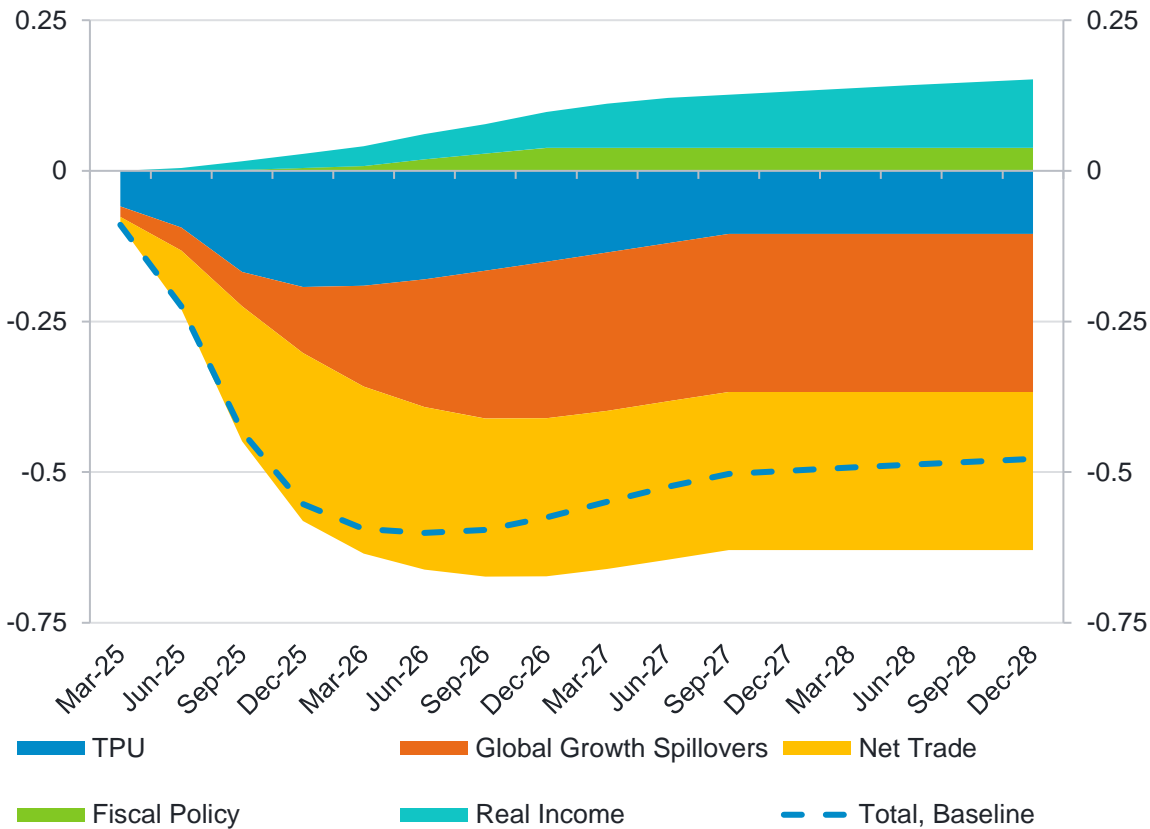
EA: Fiscal impulse turns neutral to slightly positive from restrictive earlier...

...with most of it driven by Germany. Headwinds from tariffs will be a core story in H2'25

EMU4 fiscal deficit as % of GDP



Effect of trade tensions on EA real GDP level (% QoQ)



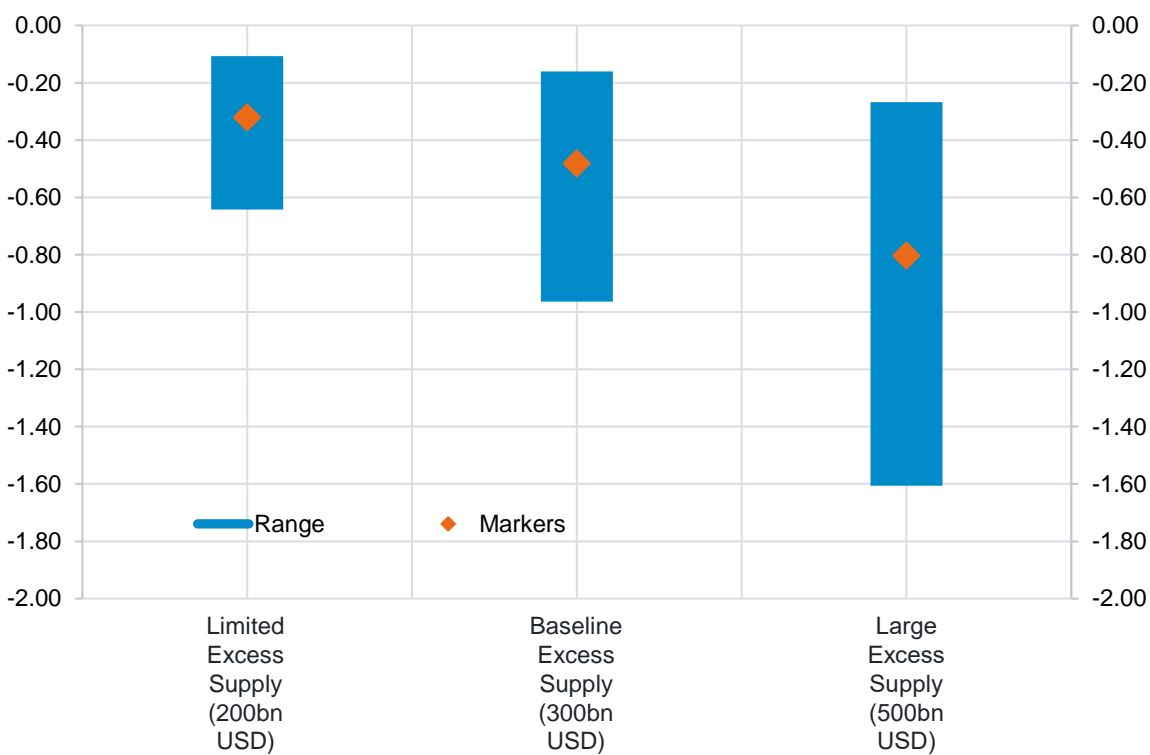
EMU4 – Four largest economies of the Economic and Monetary Union

Source: Fidelity international, Goldman Sachs GIR, Haver Analytics, August 2025

Source: Fidelity International, Goldman Sachs GIR, Haver Analytics, Census Bureau, August 2025

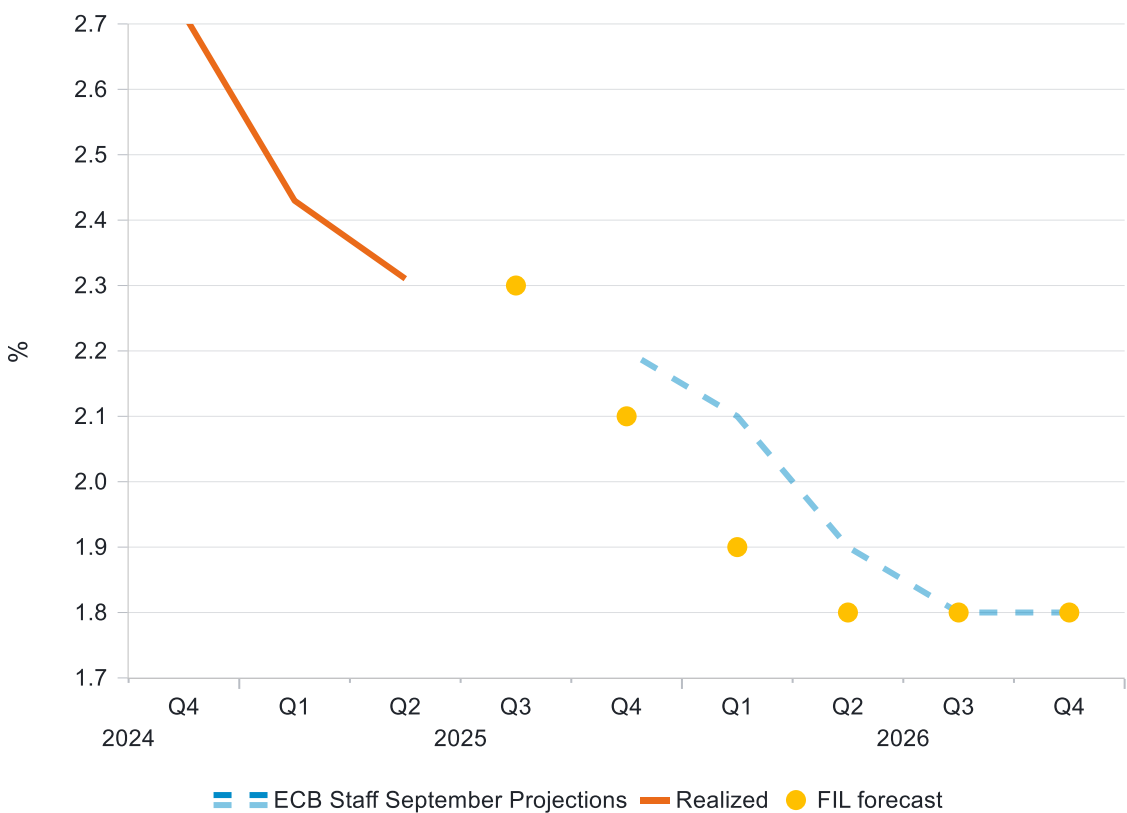
EA: Inflation likely to surprise to the downside as excess East Asian goods get redirected into the single market as a result of US tariffs

Effect of Goods Excess Supply on EA20 Core Prices: Scenarios



*Range based on possible elasticities of prices to low-wage country import share

Core inflation will likely fall faster than the ECB expects



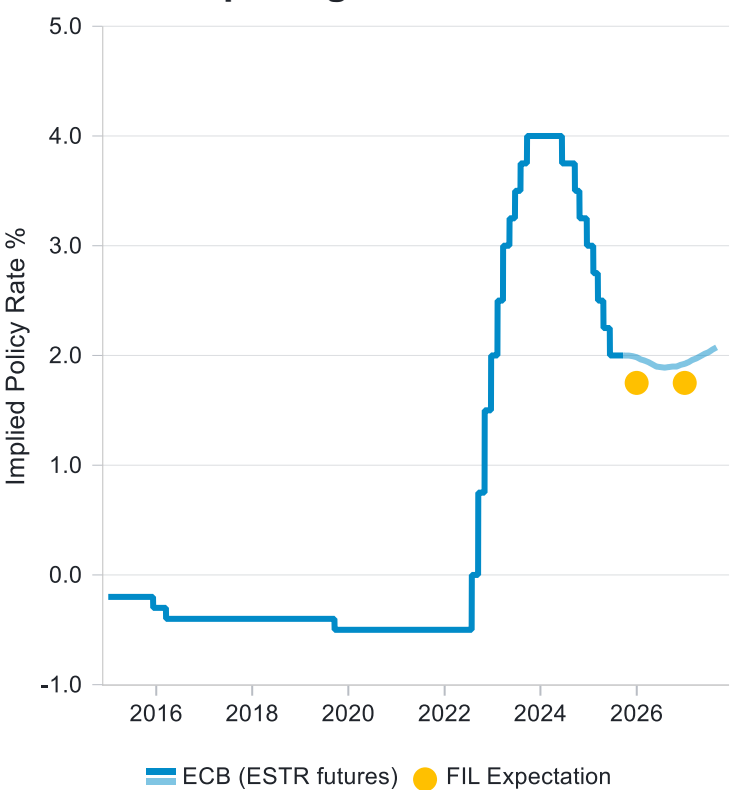
Source: Fidelity International, Goldman Sachs GIR, Haver Analytics, ECB, Bloomberg, June 2025.

Source: Fidelity International, Macrobond, ECB, Eurostat, September 2025.

The ECB will continue cutting as disinflationary factors persist

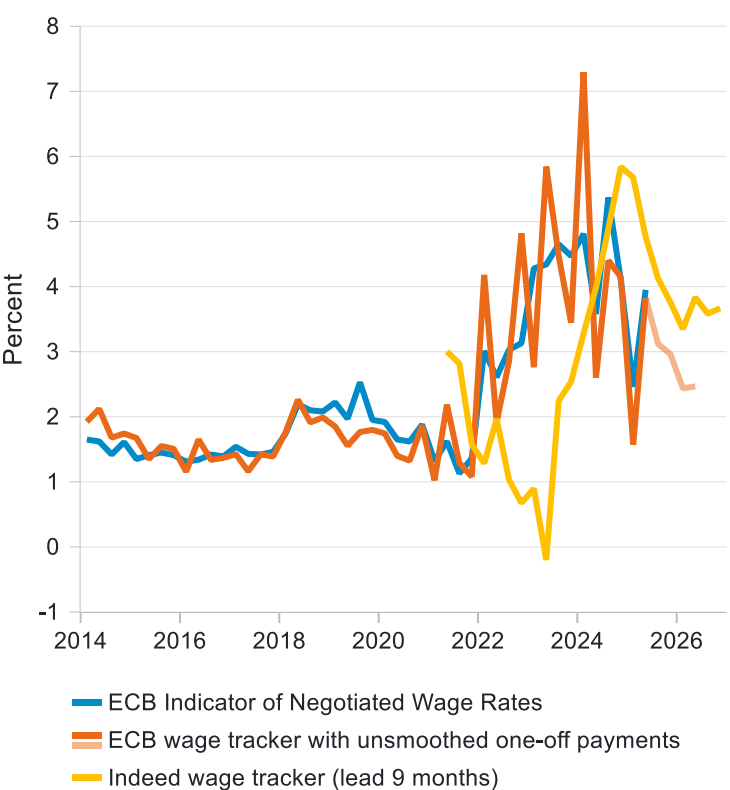
We expect the ECB to cut once more this year to 1.75% against the backdrop of low price pressures

ECB market pricing



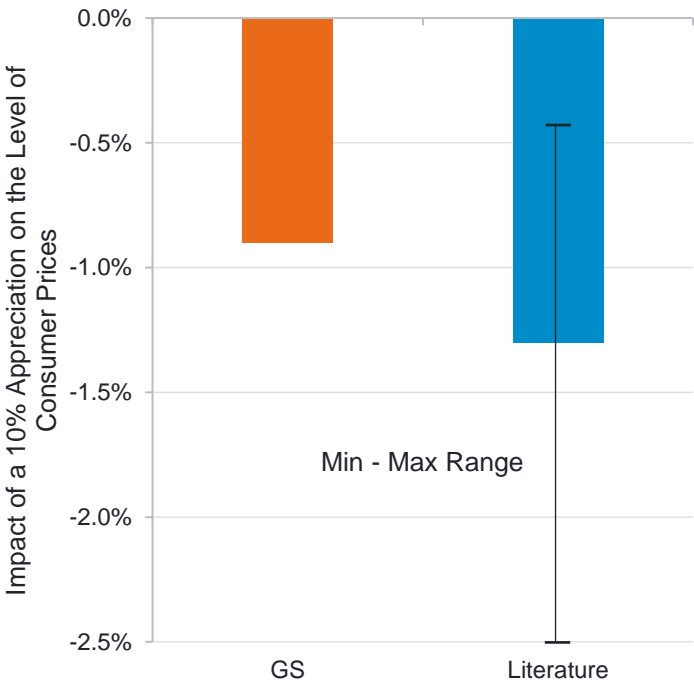
Source: Fidelity International, Macrobond, ECB, ICE Futures Europe, September 2025.

ECB expects wage growth to slow



Source: Fidelity International, Macrobond, ECB, Indeed Hiring Lab, September 2025.

ECB under-estimating disinflationary impulse from Euro appreciation

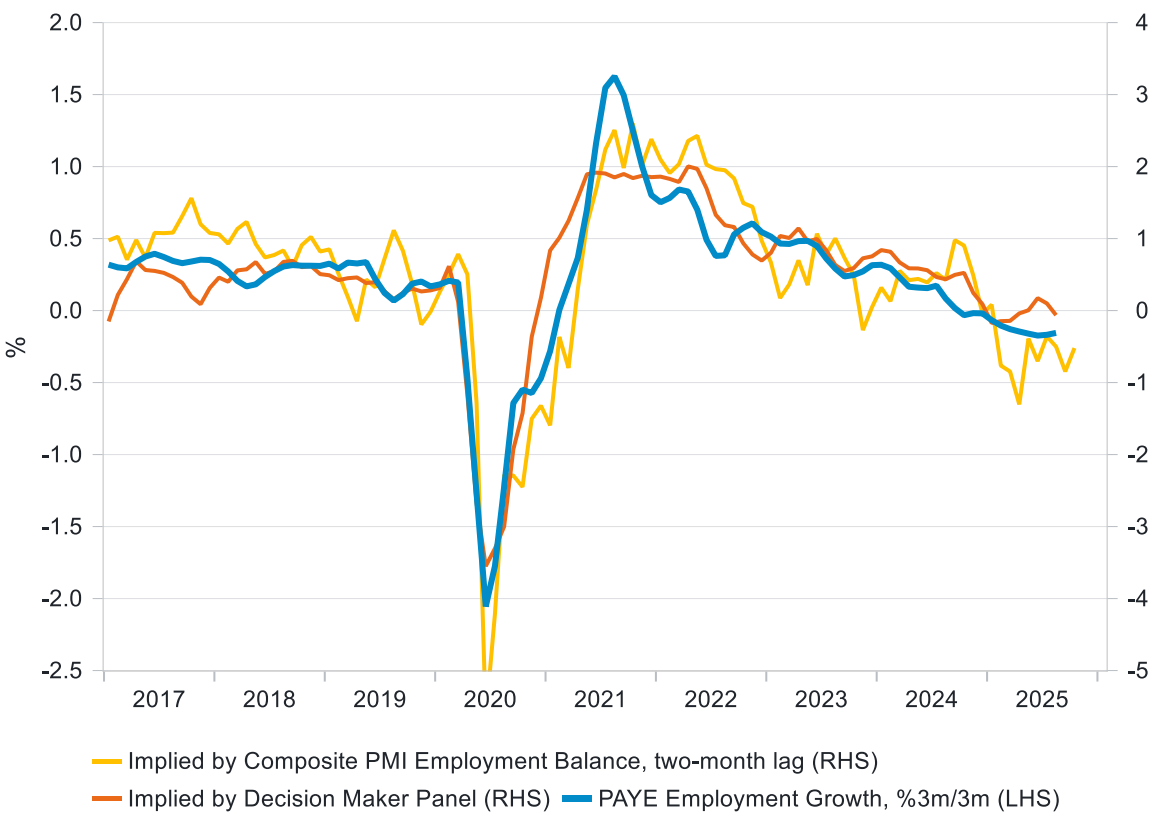


Source: Fidelity International, Goldman Sachs GIR, Haver Analytics, ECB, Bloomberg, August 2025.

UK: While data quality is poor, the labour market is weakening...

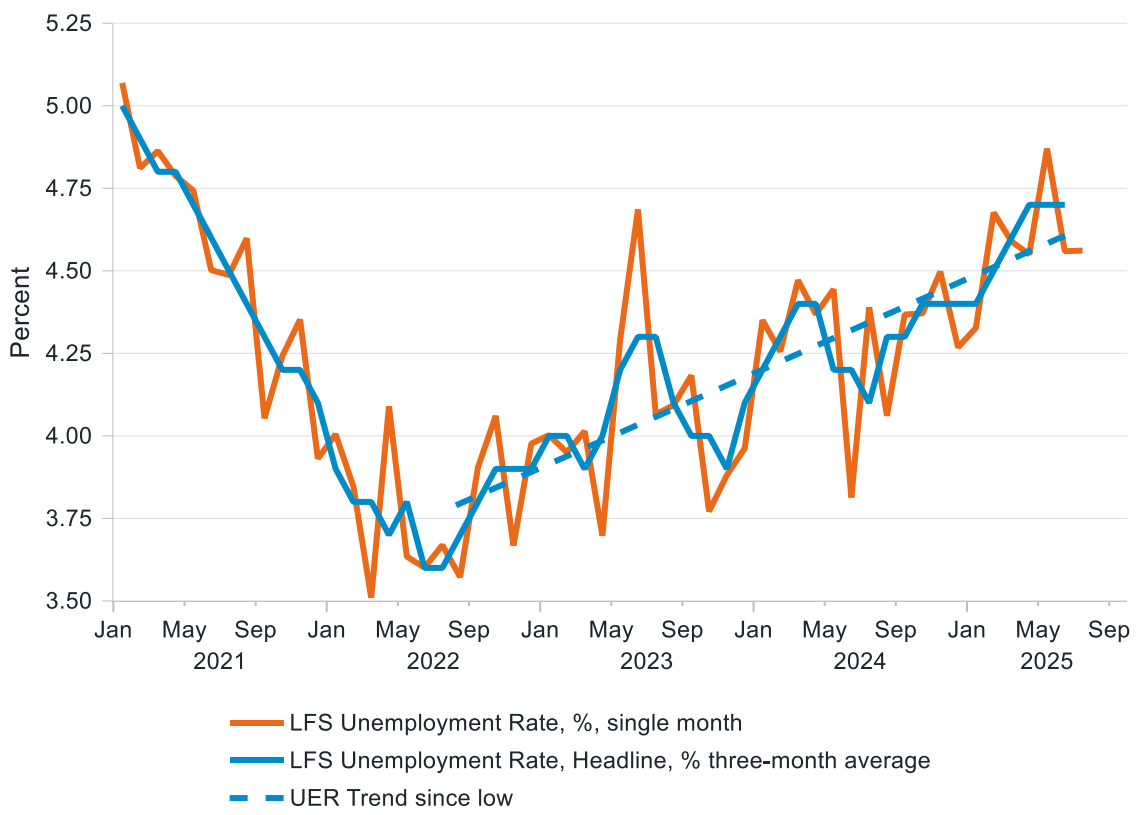
...with leading indicators suggesting some moderation.

Employment growth steady...



Source: Fidelity International, Macrobond, S&P Global, BoE, ONS, September 2025.

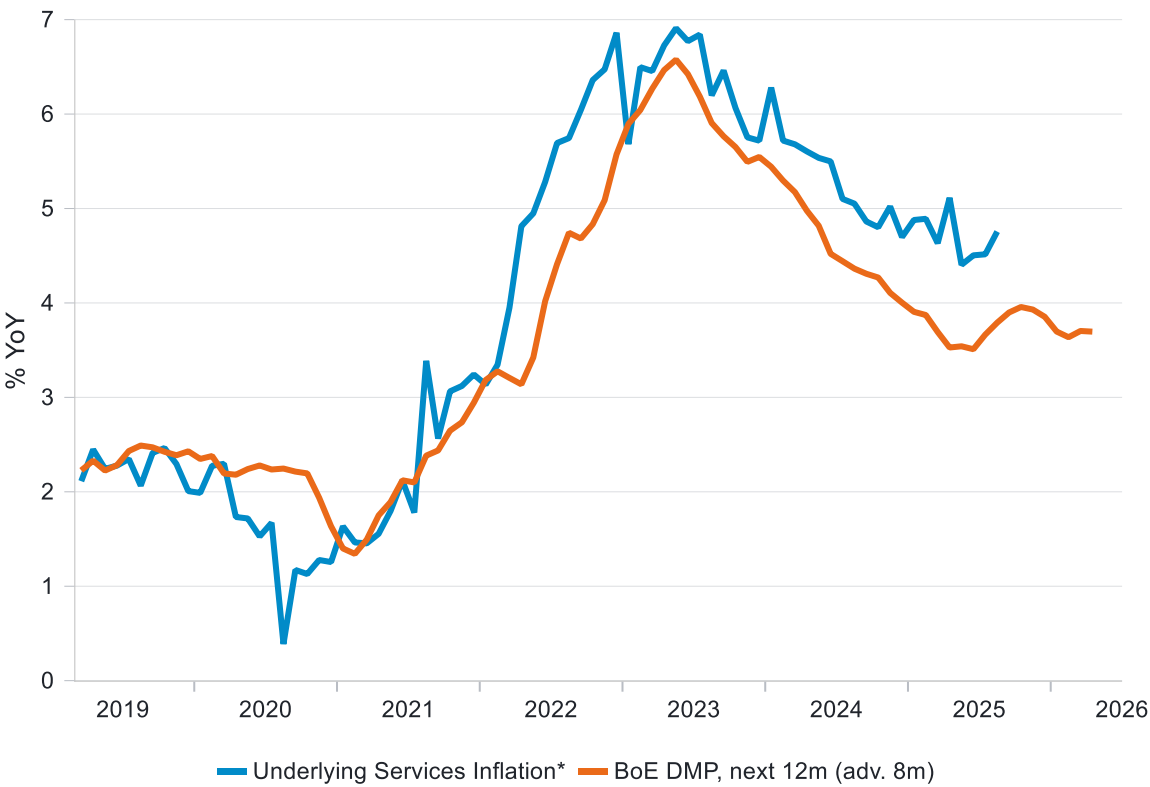
...whilst unemployment seems to be plateauing.



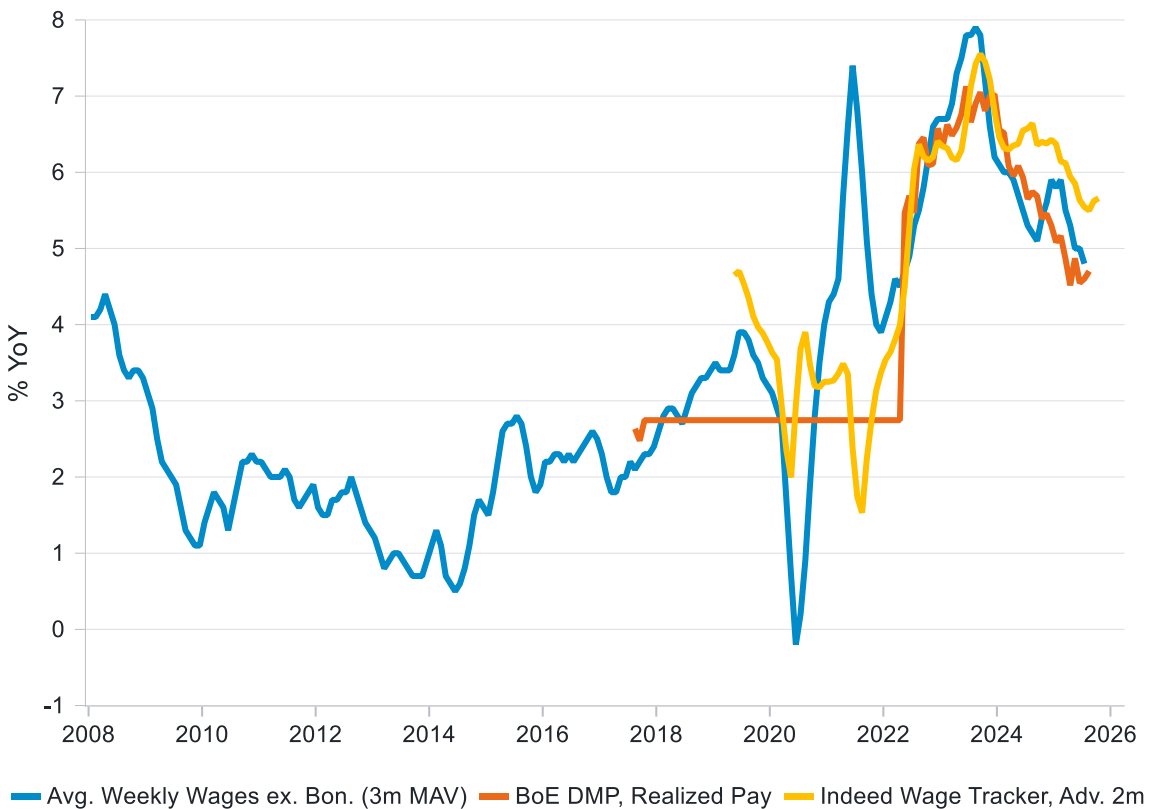
Source: Fidelity International, Macrobond, ONS, September 2025.

Underlying price pressures, away from regulated prices, are now starting to show decent moderation

Services inflation is falling more rapidly



Wages remain elevated but are moderating

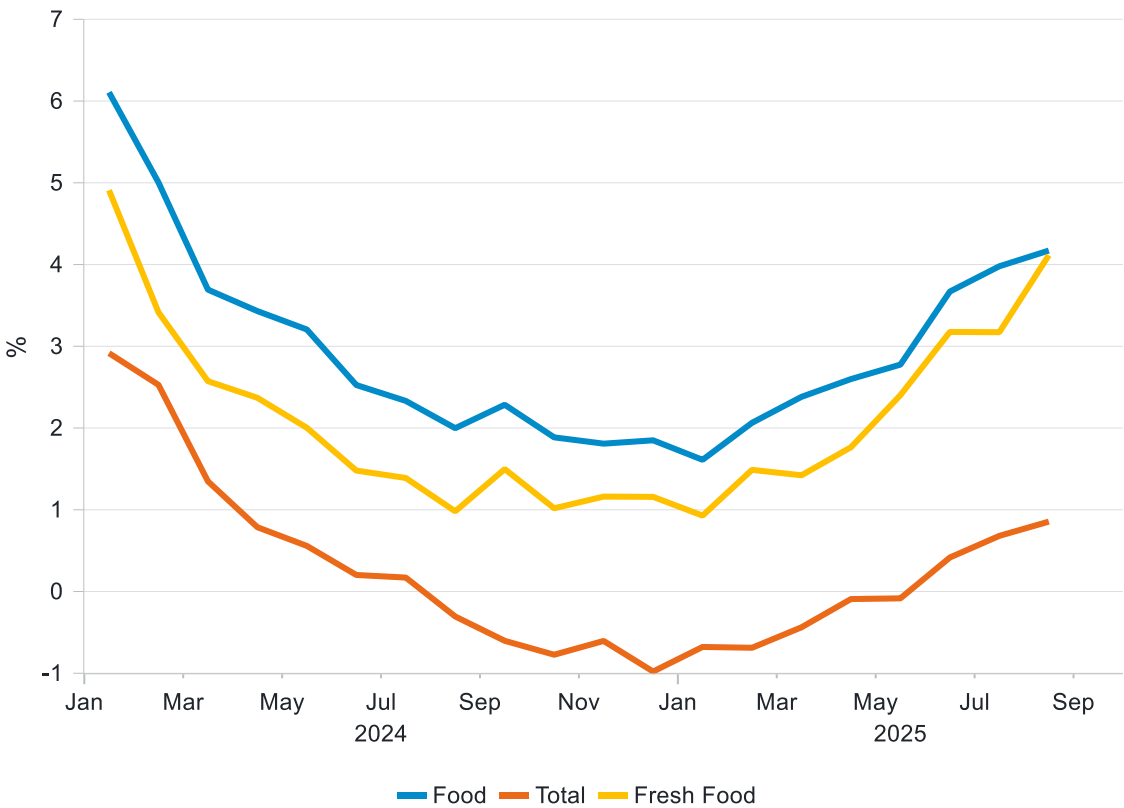


* ex Airfares, Education, and Package Holidays
Source: Fidelity International, Macrobond, ONS, BoE, September 2025

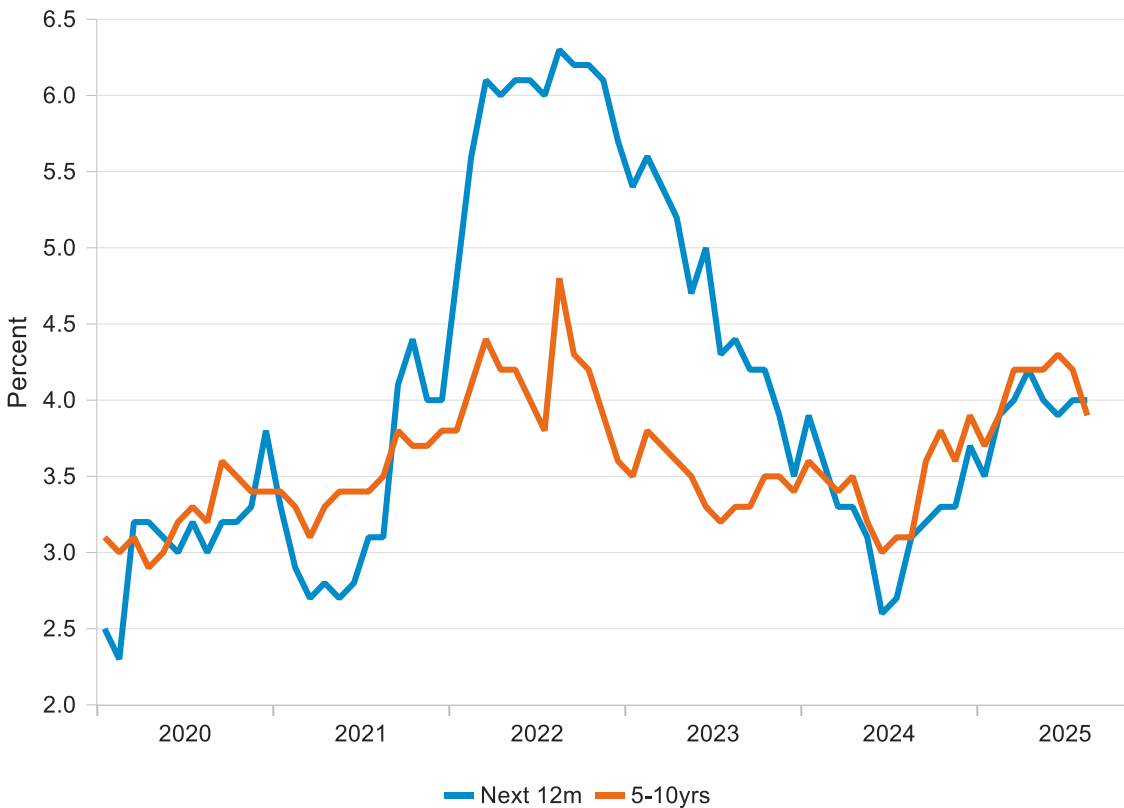
Source: Fidelity International, Macrobond, ONS, BoE, Indeed Hiring Lab, September 2025.

Incredibly weak potential growth combined with overexposure to volatile external prices has turned the UK into an inflationary ‘price taker’ economy

Timely shopping data shows food prices are high & accelerating



Which is likely to push inflation expectations higher as well



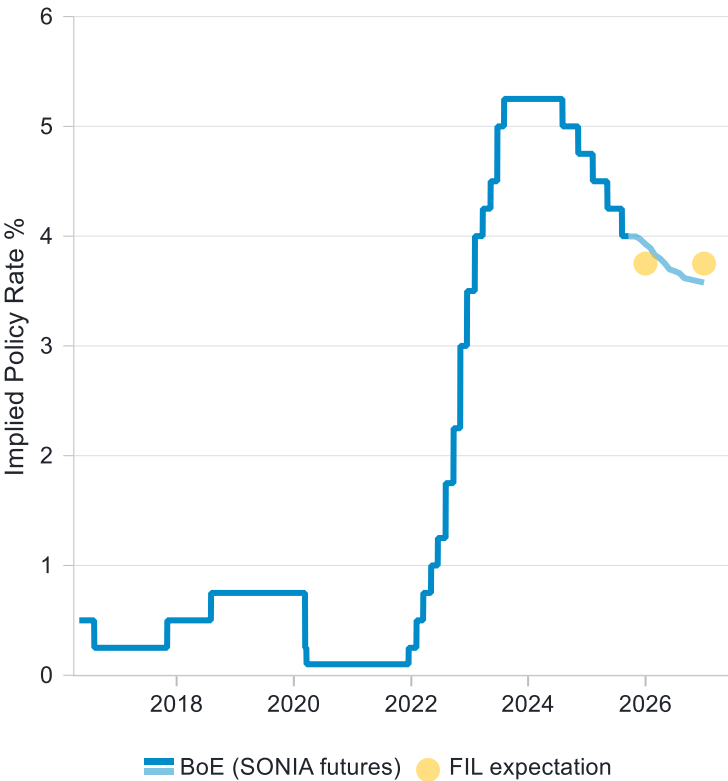
Source: Fidelity International, Macrobond, BRC, September 2025.

Source: Fidelity International, Macrobond, YouGov, September 2025.

BoE: Will cut once more this year to counterbalance a growing global fiscal shock

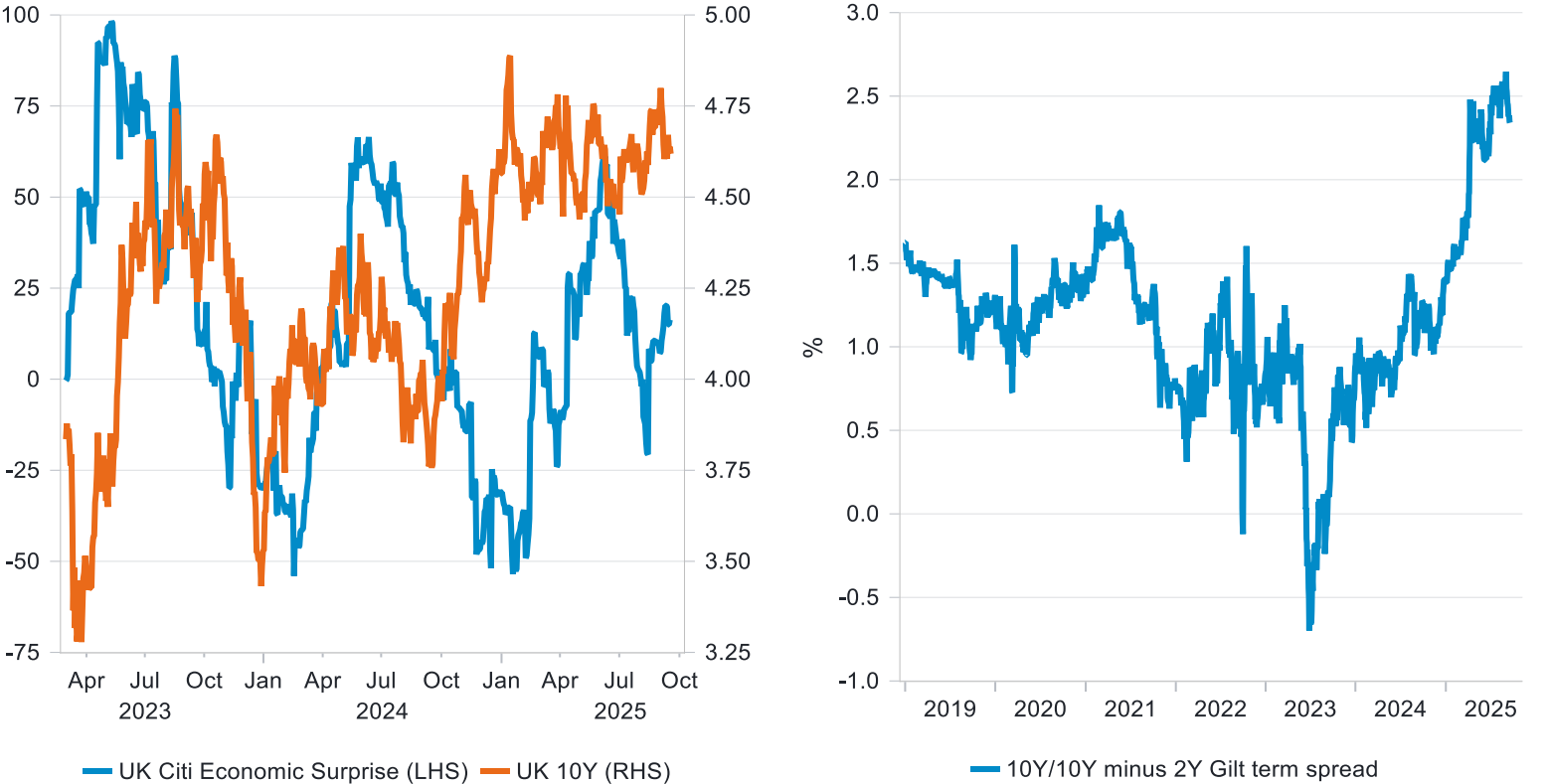
Whilst a strict focus on inflation would suggest no cuts, the weakening labour markets give them room to cut

BoE market pricing



Source: Fidelity International, Macrobond, BoE, ICE Futures Europe, September 2025.

Yields breaking from fundamentals and rising term premia suggests a global fiscal factor is keeping yields elevated



Source: Fidelity International, Macrobond, Bloomberg, September 2025

Source: Fidelity International, Macrobond, Bloomberg, September 2025

China Macro Outlook

Three scenarios for China in 2025

Balancing act in shifting landscape

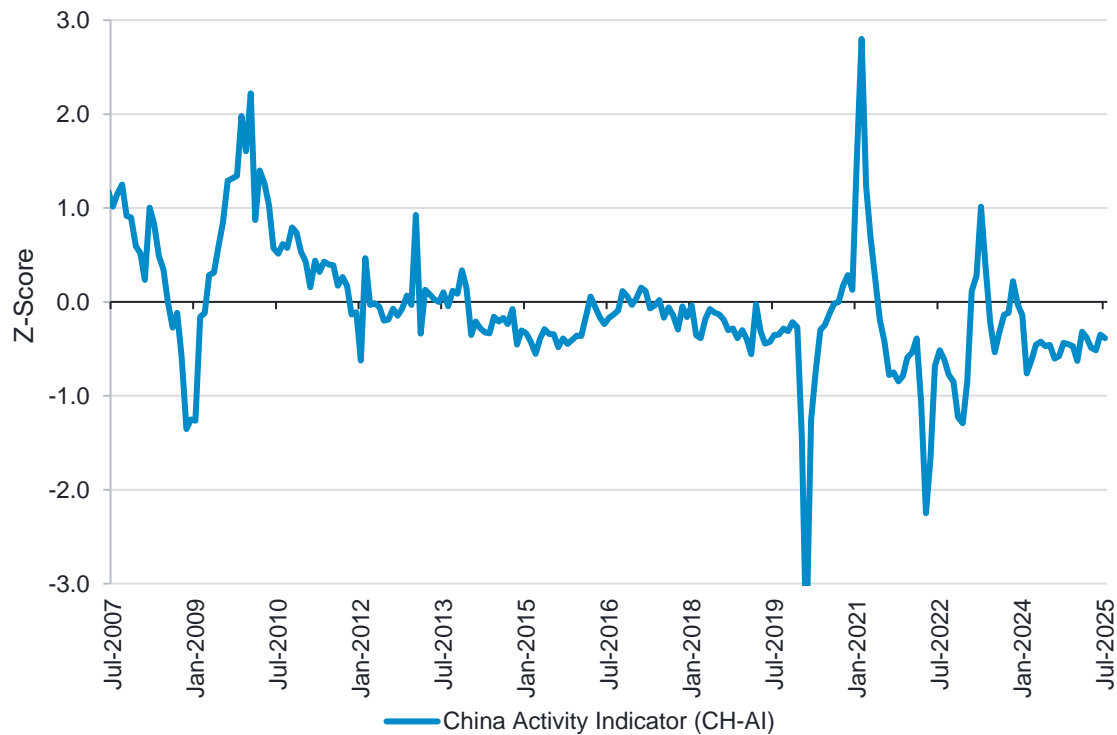
	Growth	Inflation	Monetary policy	Fiscal policy
Scenario 1: Controlled Stabilisation 55%	<p>The pace of recovery gradually gains momentum as consumption improves. The property sector stabilises on stronger stimulus. Industrial activities and exports face more challenges from rising tariffs uncertainties. Real GDP growth stabilises around a lower government's target.</p>	<p>CPI and PPI rebound softly on the back of a gradual recovery in domestic demand. Inflation stabilises slightly below target over the medium term.</p>	<p>The PBoC cuts benchmark rates and the reserve requirement ratio to support growth. It also manages liquidity by buying and selling government bonds in the secondary market.</p>	<p>Policymakers accelerate the fiscal easing to support domestic demand. It will continue with gradual de-risking plans to resolve structural issues in local government, property and banking sectors.</p>
Scenario 2: Serious Slowdown 35%	<p>The economy faces stronger headwinds from domestic structural issues and a developed market slowdown. Potentially rising geopolitical tensions (such as a steep tariff increase on Chinese exports) could be another major shock to growth and may lead to a severe slowdown in the broader economy.</p>	<p>Both CPI and PPI gradually fall into deflation well below government targets.</p>	<p>The PBoC delivers limited or no rate cuts as it prioritises currency stability over domestic easing.</p>	<p>Policymakers are slow to introduce sufficient fiscal support for growth due to limited fiscal policy room and a rigid fiscal framework.</p>
Scenario 3: Reflation 10%	<p>The recovery becomes more broad-based and gains momentum with a more dovish policy setting. The property sector takes the lead from a strong monetary policy push. The initial impulse is strong, driven by optimism on property and consumer sectors. Growth may rebound above target.</p>	<p>Both CPI and PPI recover and gain momentum with strong domestic demand rebounding to match or beat the government target.</p>	<p>The PBoC eases monetary policy more aggressively with consecutive benchmark rate and reserve requirement ratio cuts. The system is flushed with liquidity to accommodate broad-based re-leveraging.</p>	<p>Policymakers explicitly bail out stressed local governments and property sector companies, leading to renewed optimism in re-leveraging. They also aggressively expand fiscal deficits to support domestic demand.</p>

Source: Fidelity International, September 2025.

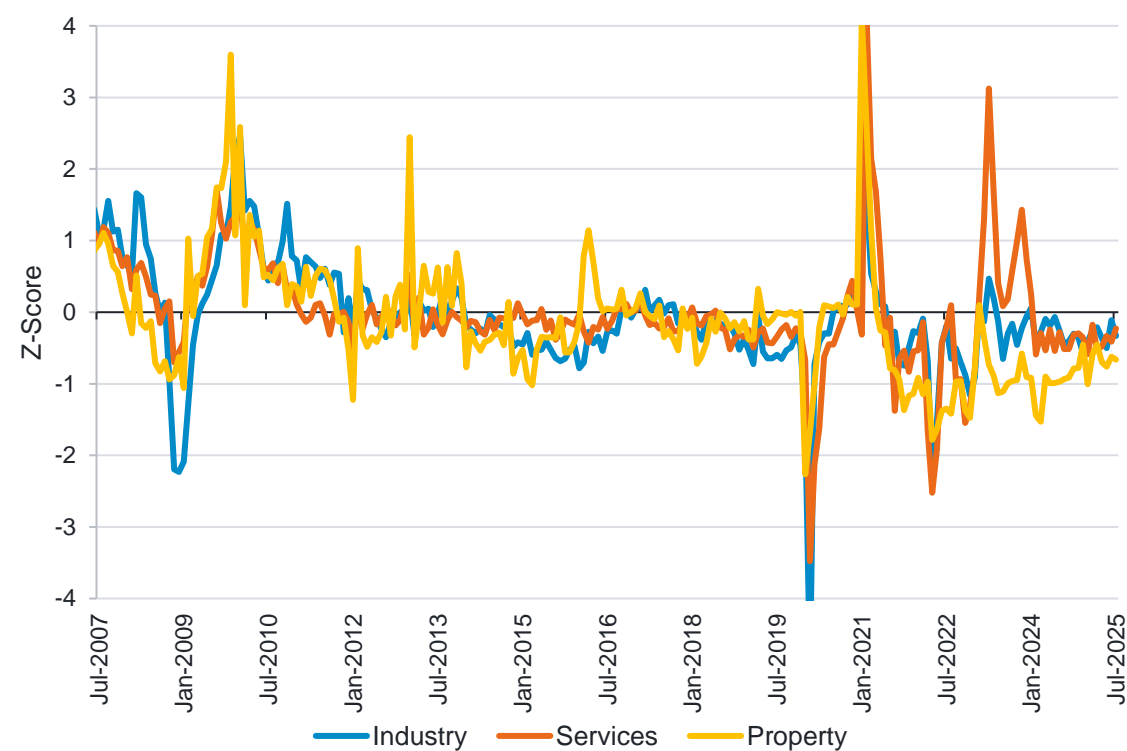
China activity indicator remains steady in July...

...as services and manufacturing sector show resilience. Property sector continues to lag behind.

China activity indicator (CH-AI)



China activity indicator (CH-AI) by sector

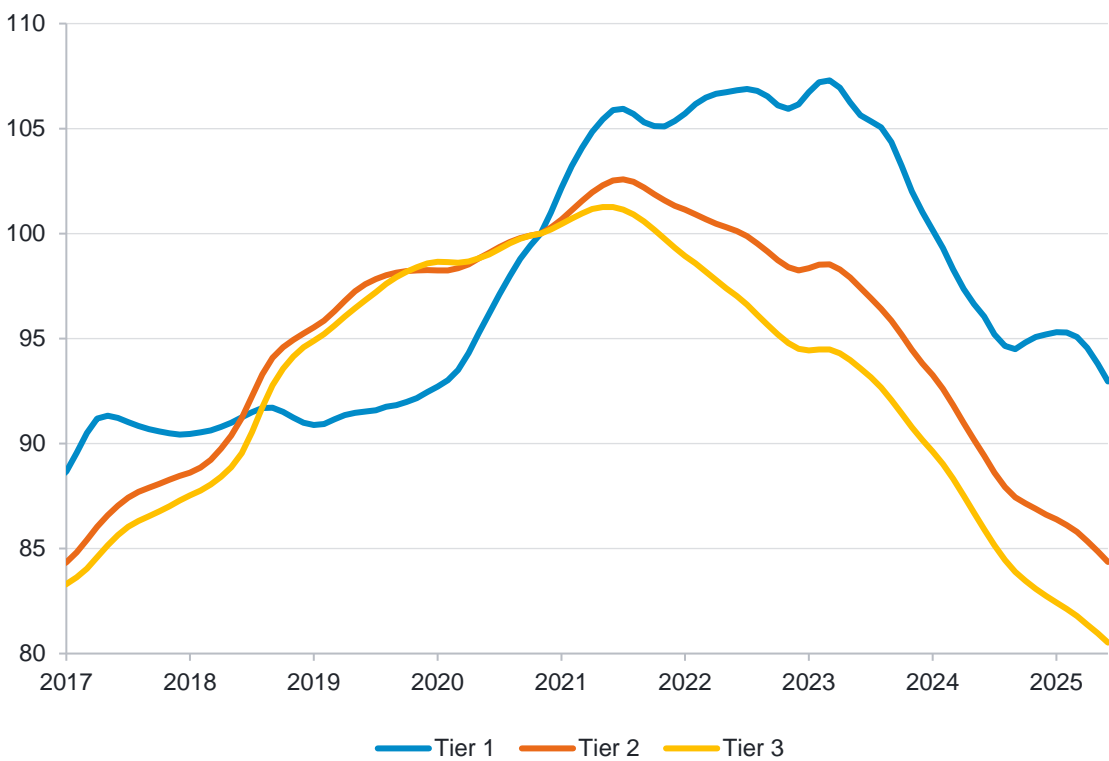


Source: Fidelity International, FIL Global Macro Team calculations, Bloomberg, Haver Analytics, Wind, September 2025.

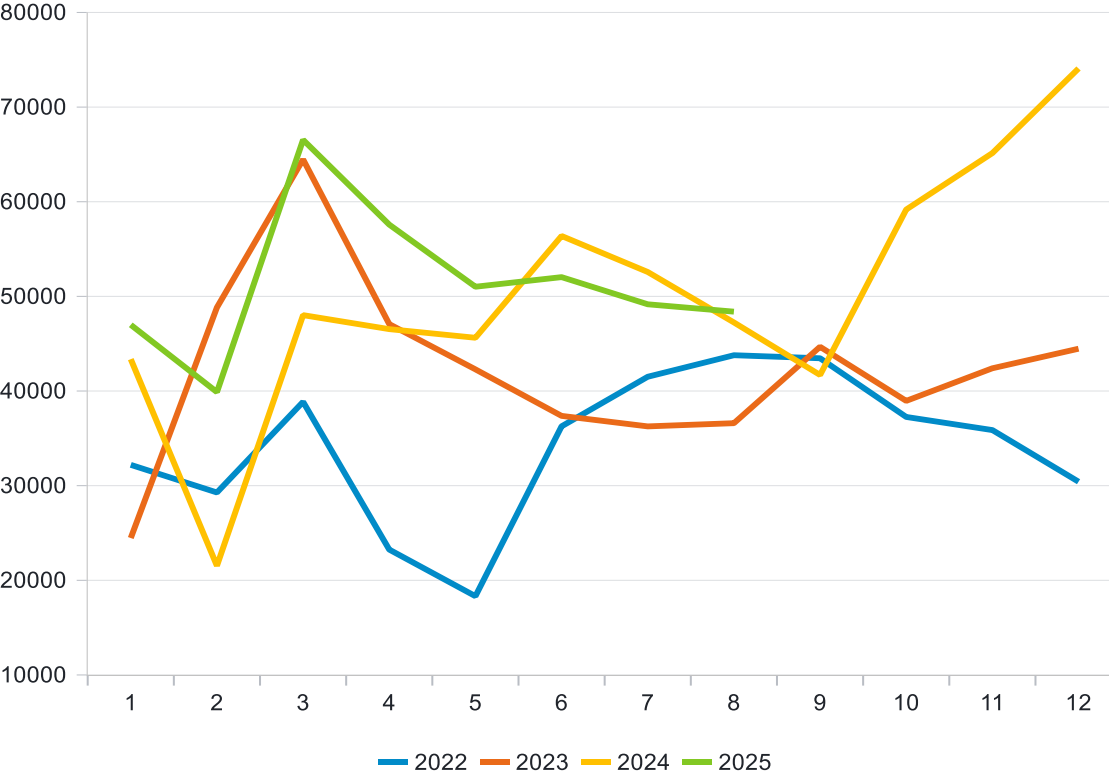
Property sector recovery is not gaining traction

There are signs of a renewed slowdown in the property sector

Property price (Resale, Jan 2021=100)



Property transaction volume in Tier 1 cities



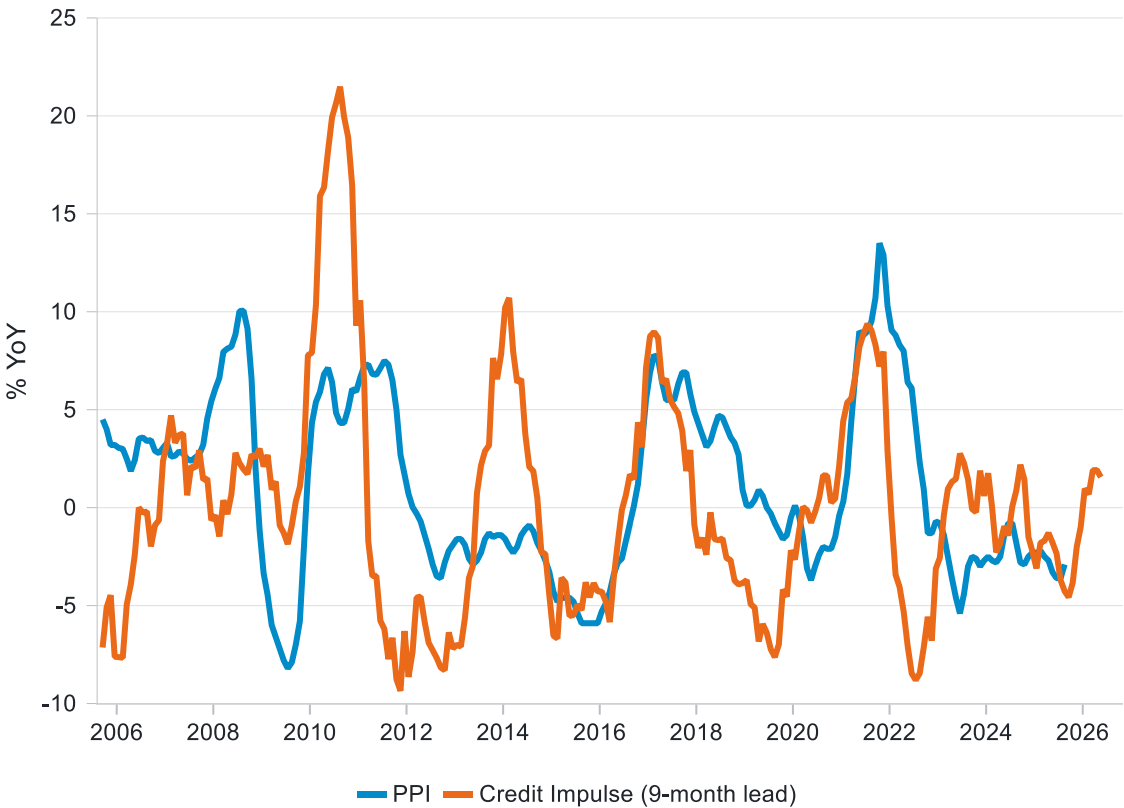
Source: Fidelity International, Bloomberg, September 2025

Source: Fidelity International, Macrobond, CREIS, September 2025.

“Anti-involution” campaign may lead to mild rebound in inflation

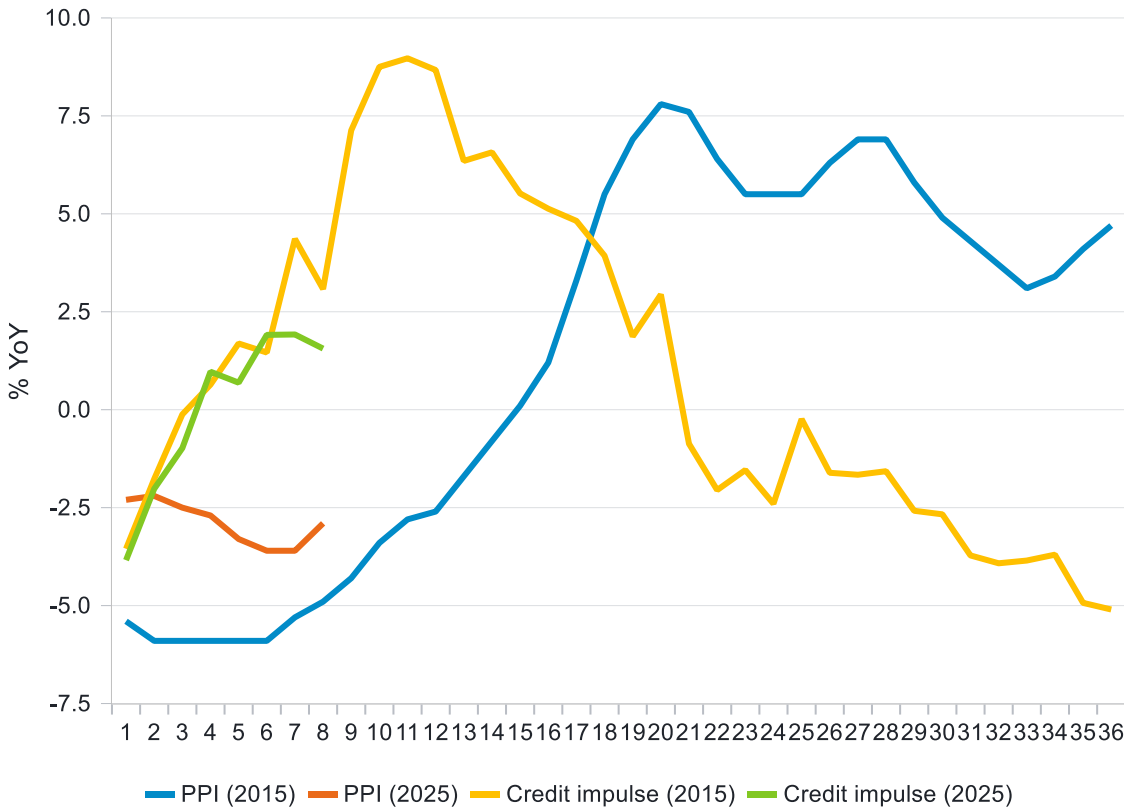
Leading indicators point to a rebound of PPI in coming months

Credit impulse and PPI



Source: Fidelity International, Macrobond, Bloomberg, NBS, September 2025.

PPI and Credit Impulse in 2015 vs. 2025

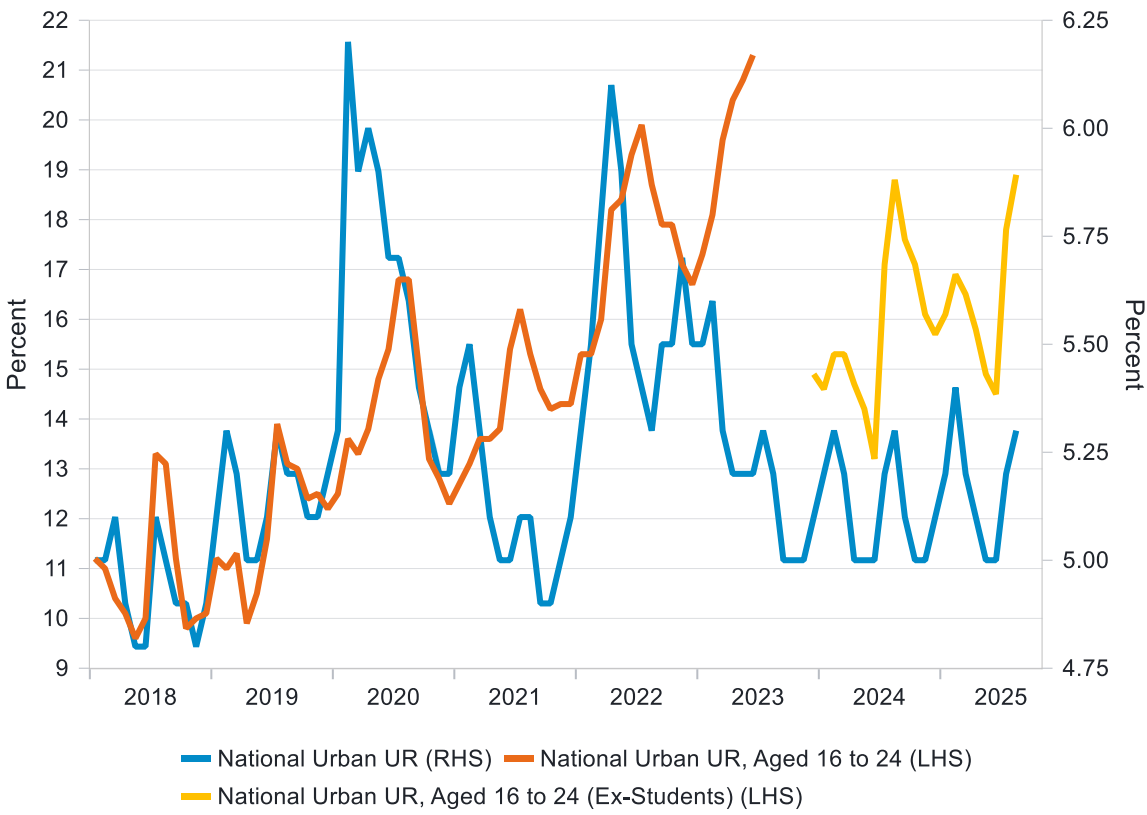


Source: Fidelity International, Macrobond, Bloomberg, NBS, September 2025.

Employment and wage growth

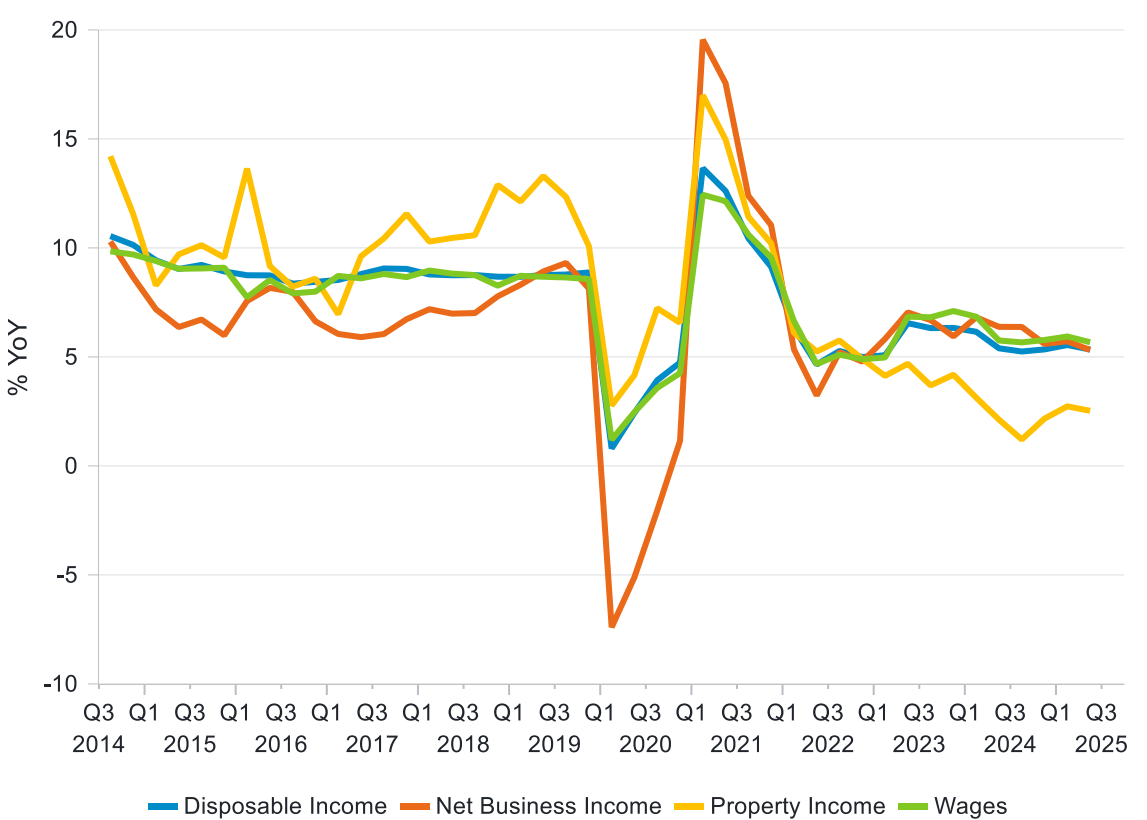
Employment and wage growth have been stabilising without significant further improvements

Unemployment Rate



Source: Fidelity International, Macrobond, NBS, September 2025.

Wage growth

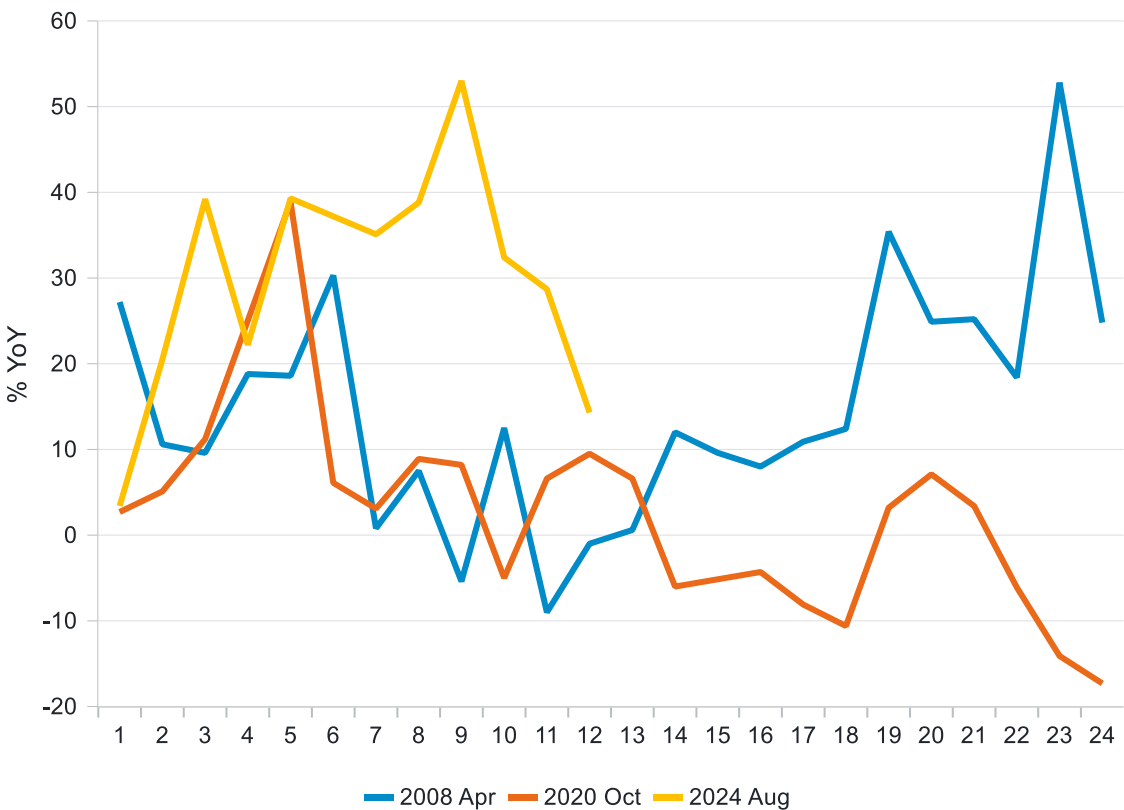


Source: Fidelity International, Macrobond, NBS, September 2025.

Consumption subsidies and potential implications

More subsidies to households after the momentum of “Trade-In” program fades

Household appliance sales



Subsidies to households and fiscal implications

Subsidies	Details	Beneficiary	Estimated total annual outlay	Distribution
Childcare Subsidy	RMB3600 annual cash subsidy for child born after 2025 for 3 years	Households with newborn after 2025	~RMB110bn annually from government budgeted expenditures	90% central government, 10% local governments
Elderly care subsidies for disabled elderly	RMB 500-800 cash vouchers monthly for services related purchases	Disabled elderly	RMB22-35.2bn annual expenditure	90% central governments, 10% local governments
Free pre-school education	1-year free pre-school education for all children	Households	~RMB40-60bn annual expenditure	Mainly from central government
Trade-in goods	RMB69bn to be distributed in Jul and Oct	Home appliance purchases	RMB300bn total for 2025	Proceeds of bond issuance

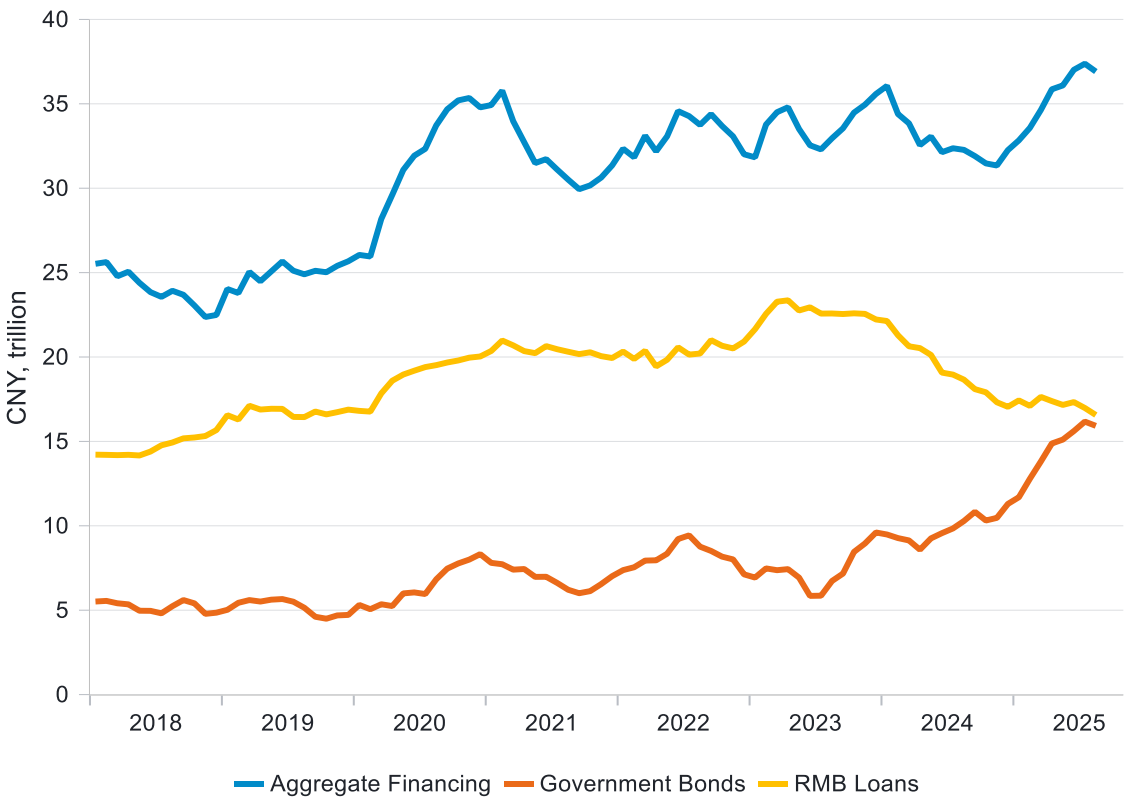
Source: Fidelity International, Macrobond, NBS, September 2025.

Source: Gov.cn, Xinhua News, Fidelity International, September 2025

Policy updates and key events

Incremental easing is supported by fiscal frontloading; trade negotiations remain key to the macro outlook

Aggregate financing (12-month rolling sum)



Source: Fidelity International, Macrobond, PBoC, September 2025.

Key events and timeline

Date	Event	Focus
14 October	End of 180-day pause on Section 301 port fees on Chinese vessels	Trade and tariff policy
31 October	APEC Summit in Korea	Geopolitics
10 November	End of another 90-day pause on US-China tariffs	Geopolitics, trade and tariffs policy
Q4-2025	Release 15 th Five Year Plan	Macro policies, medium term outlook
December	Central Economic Work Conference	Outlook and macro policy priorities for 2026

Source: Various media headlines, Gov.cn, Fidelity International, September 2025

Japan Macro Outlook

Japan election and fiscal implications

Ishiba’s resignation and upcoming LDP election will likely rebuild the expectations for fiscal expansion, but uncertainties remain.

Frontrunners of October LDP election



From left: Takayuki Kobayashi, Shinjiro Koizumi, Sanae Takaichi and Yoshimasa Hayashi, possible candidates in the next Liberal Democratic Party leadership election (Asahi Shimbun file photos)

Key events calendar

Date	Key Event
7 th Sep	PM Ishiba Announces Resignition
18-19 th Sep	BOJ Monetary Policy Meeting
22 nd Sep	Confirmation of LDP candidates
3 rd Oct	BOJ Governor Ueda speech in Osaka
4 th Oct	LDP Election voting day
Early/Mid Oct	Extraordinary Diet Session - appoint PM, new cabinet - Supplementary budget
29-30 th Oct	BOJ Monetary Policy Meeting
18-19 th Dec	BOJ Monetary Policy Meeting

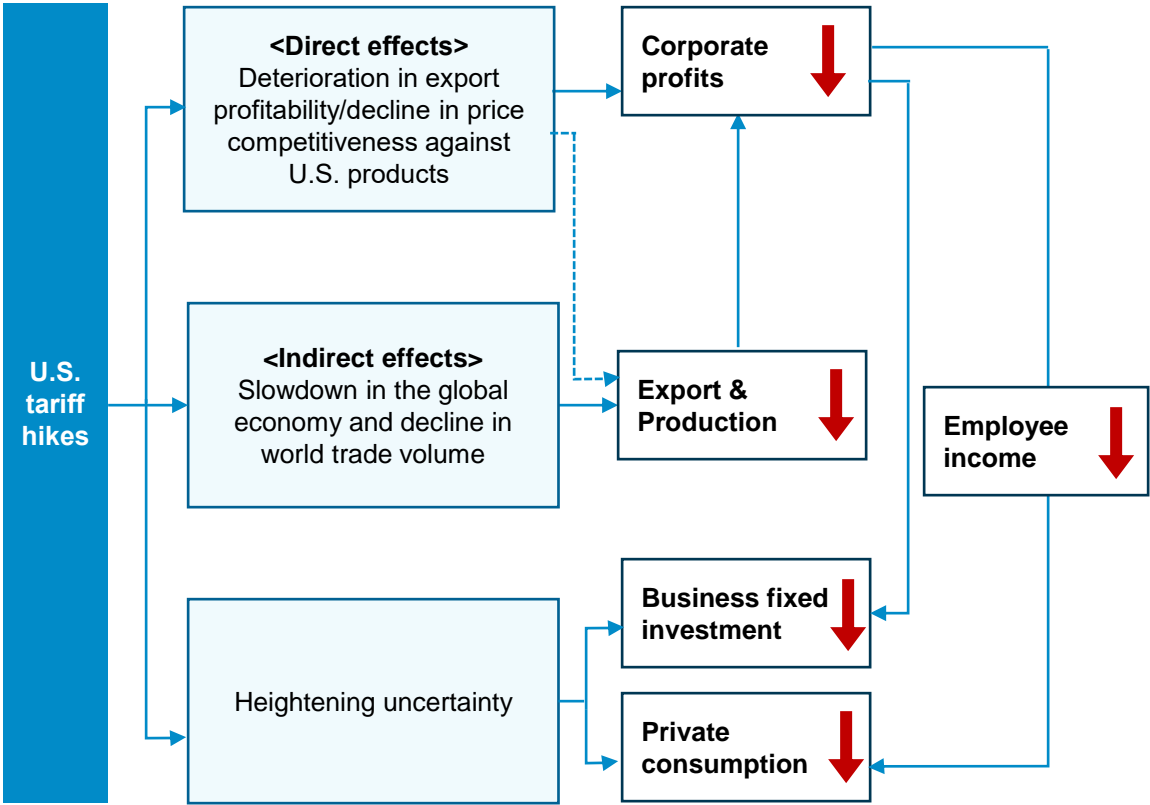
Source: Asahi Shimbun, Fidelity International, September 2025

Source: Bank of Japan, various media sources, Fidelity International, September 2025

Impact of tariffs and fiscal outlook

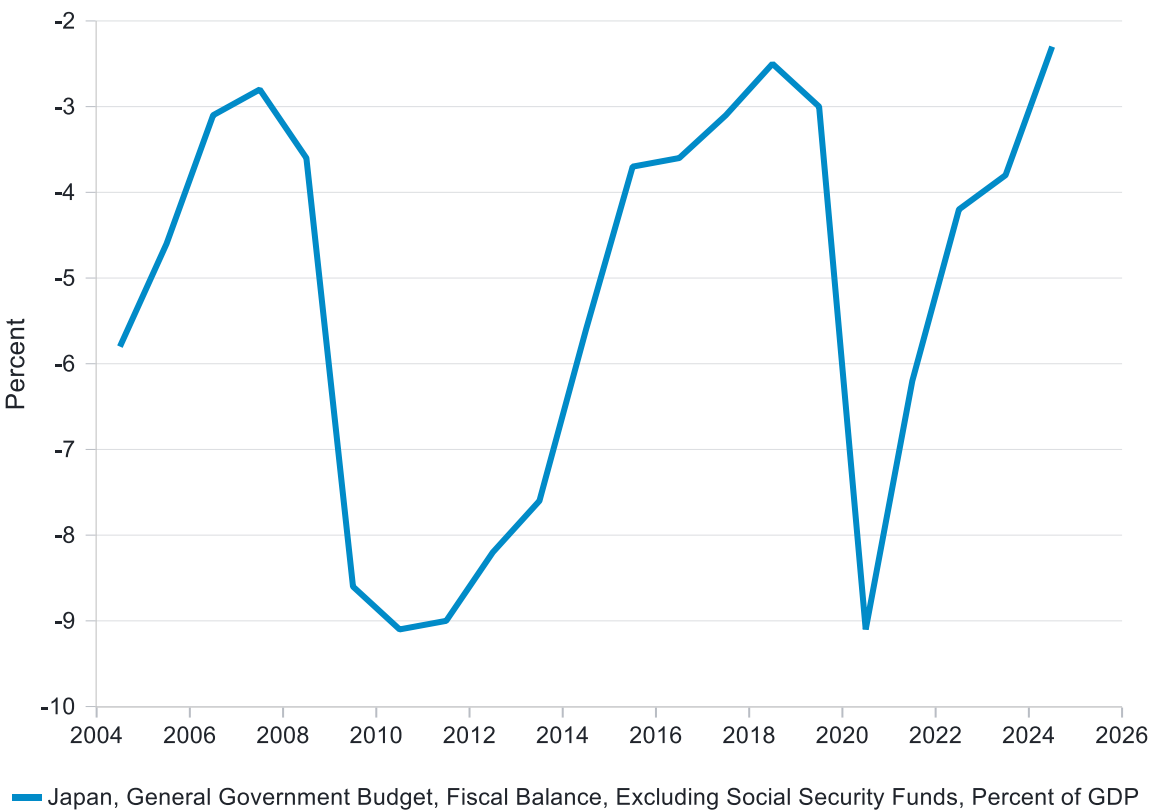
While tariffs impact is perceived to be less severe than feared, there is still expectations of fiscal expansion to address domestic “cost-of-living pressures”.

Transmission channels of US tariffs



Source: Fidelity International, BOJ July Outlook report, September 2025

Fiscal impulse as % of GDP

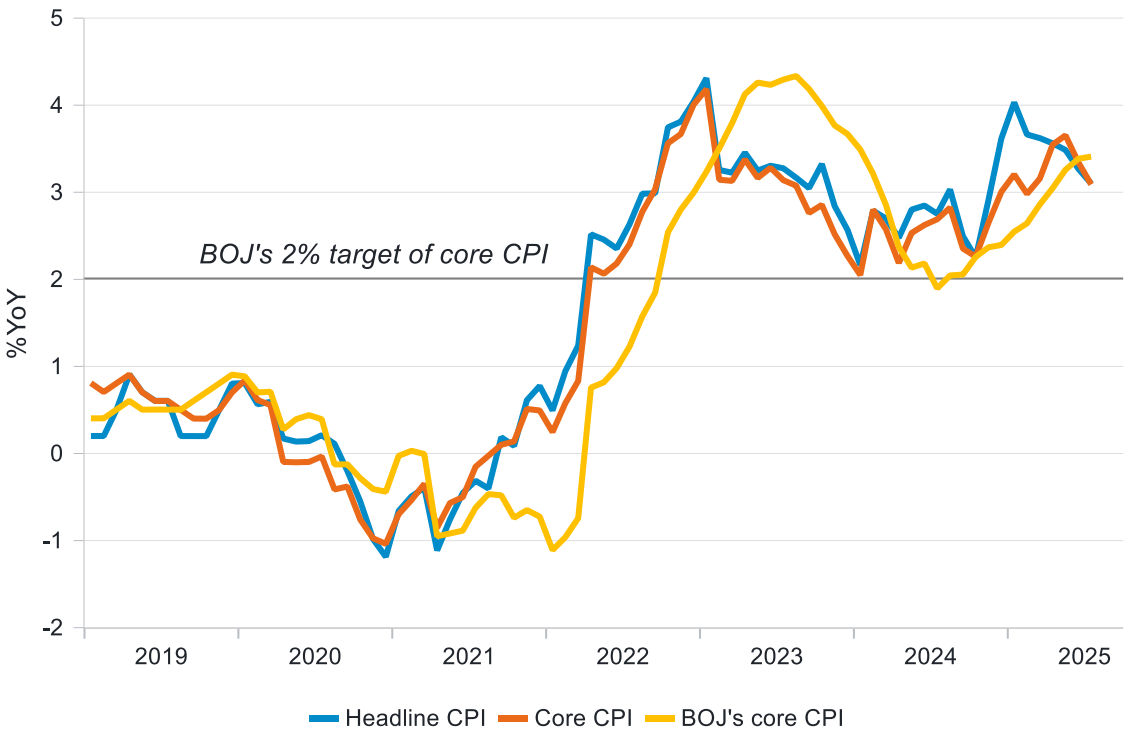


Source: Fidelity International, Macrobond, MOF, September 2025.

Japan's underlying inflation and BOJ outlook

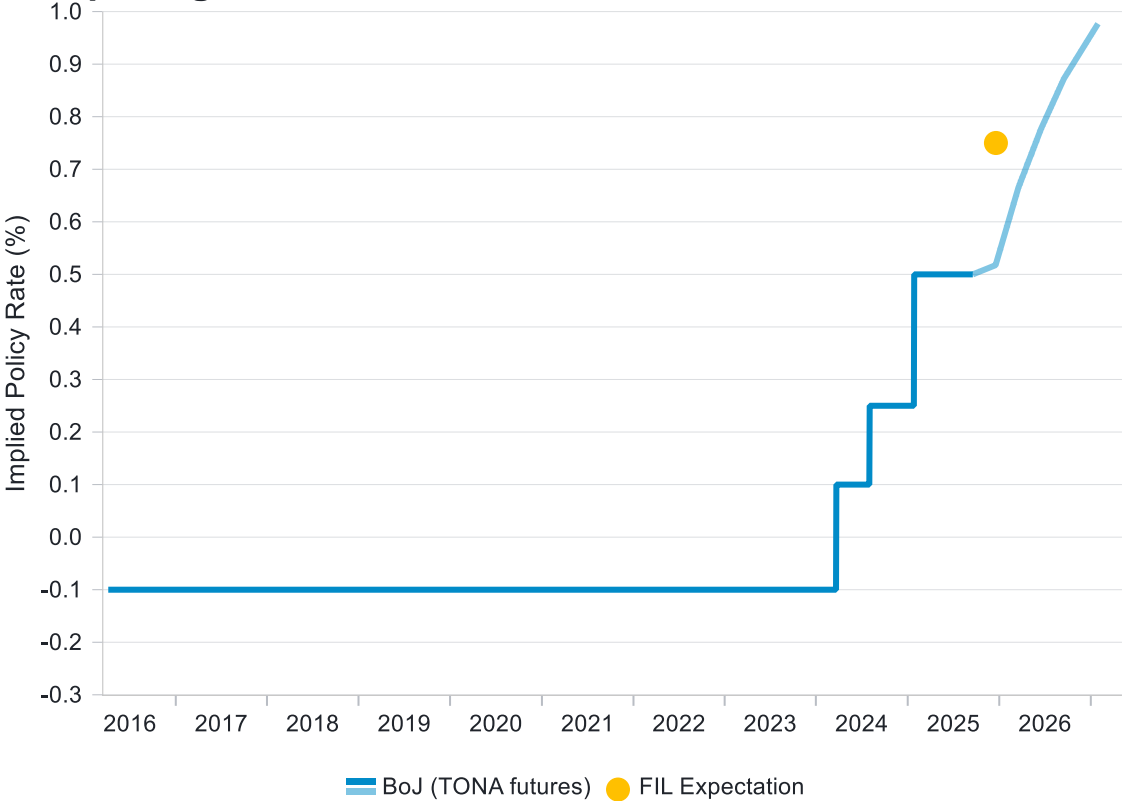
BOJ is less concerned about tariffs' direct threats to Japan, but global slowdown still weighs on growth and inflation outlook. There is a higher chance of delay in BOJ's next hike to 75bps. We think it might be Dec/Jan.

Japan's inflation



Note: Core CPI is headline CPI ex fresh food. BOJ's core CPI is core CPI ex energy
Source: Fidelity International, SBJ, Macrobond, September 2025.

BOJ pricing

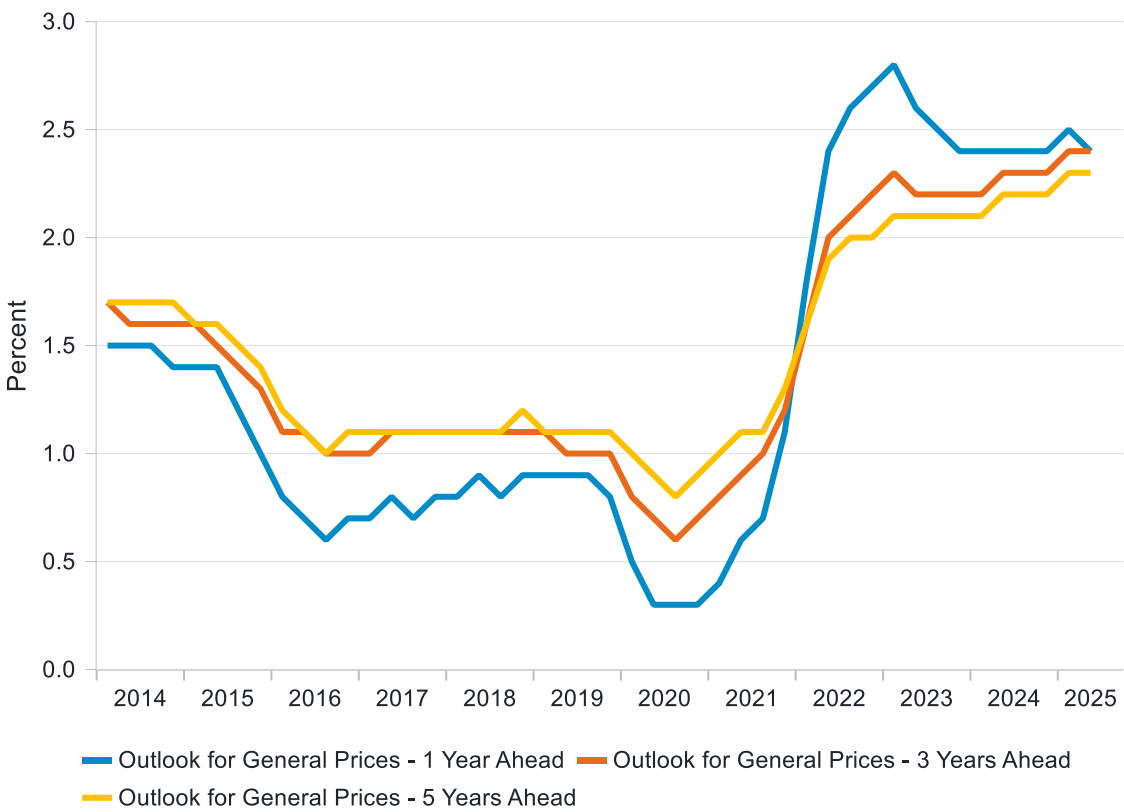


Source: Fidelity International, Macrobond, BOJ, JPX, September 2025.

Inflation outlook

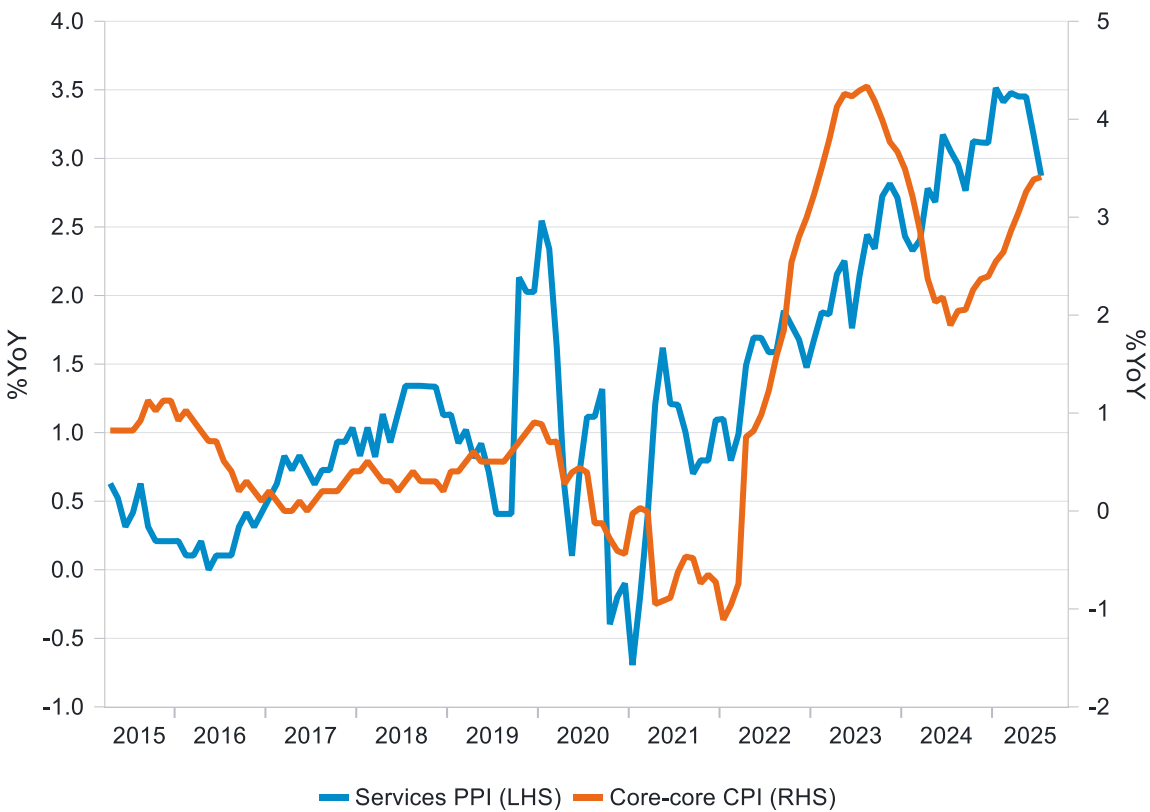
Despite uncertainties in politics and tariffs, the outlook for inflation has not changed over the long run

Tankan inflation outlook, all enterprises



Source: Fidelity International, Macrobond, BOJ, September 2025.

Services PPI and core-core CPI



Source: Fidelity International, Macrobond, BOJ, SBJ, September 2025.

Investment implications

TAA views summary

		--	-	=	+	++	Snapshot of views
Equities	Equities			●			Maintaining neutral equities. Prefer to take more granular pro-risk positions than an aggressive beta bet.
	US			●			We are staying neutral on the US. Policy uncertainty remains elevated, and concerns over fiscal sustainability keeps yields high. As a result, US exceptionalism remains in question.
	Europe			●			Valuations are no longer cheap, and the strengthening euro could start weighing on large cap equity earnings.
	UK			●			Earnings revisions remain uninspiring, but the market remains at a discount and sterling weakness will support multinational large caps.
	Japan			●			Positive earnings momentum and rising dividend payouts balance out trade policy uncertainty and the chance of a hawkish BOJ surprise.
	Emerging markets				●		We stay overweight as a result of our higher conviction in China. We expect further consumption targeted stimulus to boost demand and involution policy to enhance industrial profitability.
	Asia Pacific ex. Japan		●				Australia's weak outlook keeps us cautious and Singapore equities are no longer attractively valued. This is our preferred funding source.
Credit	Credit		●				Remain UW credit given the tight valuations especially in IG. Better valuations in HY, but it remains a carry rather than tightening play.
	Investment grade		●				Spreads in IG remain very tight and we prefer the risk-reward of other areas of credit.
	High yield				●		Fundamentals remain robust and all-in-yields still look attractive, especially as rates are coming down. We prefer short-dated HY.
	Emerging market debt			●			Neutral but within emerging markets we prefer local currency as there are many regions with attractive real yields and/or steep curves.
Government bonds	Government bonds				●		We retain our overweight government bonds. Outside of the US, selective longs offer value and can be used to dampen risk.
	US Treasuries			●			USTs look fair value, but deficit worries persist. The Fed has indicated a rate cut is coming; however inflation remains a concern and Treasuries have been less effective as a hedge recently.
	Euro core (Bund)			●			We stay neutral Bunds, preferring regions where central banks have more room to cut rates such as Australia and New Zealand.
	UK Gilts			●			Gilts offer decent value. We don't believe they should trade at a significant premium without US-style self-induced price risks from tariffs.
	Japanese gov. bonds		→	●			Moving to neutral - on a hedged basis, JGB yields are increasingly interesting and offer attractive carry and roll down.
	EM local currency gov. bonds				●		There are several markets in EM, especially LatAm, with attractive valuations and high real yields. A weakening dollar also helps.
Cash / currencies	Cash			●			Neutral cash.
	US dollar		●	←			Back to bearish USD due to US institution degradation. The Fed seems poised to cut when it isn't necessarily warranted.
	Euro			→	●		Move to OW euro - German fiscal easing and defence spending are euro positive. Also, the ECB is likely at the end of its easing cycle.
	Japanese yen			●			Fiscal stimulus and BOJ pivot could be JPY positive in Q4.
	Sterling		→	●			Moving to neutral – We are likely to see further fiscal tightening in the Autumn budget.
	Emerging markets FX				●		A weaker dollar and positive flows towards EM equities are positive for EM FX.

Source: Fidelity International, August 2025. Views reflect a typical time horizon of 12–18 months and provide a broad starting point for asset allocation decisions. However, they do not reflect current positions for investment strategies, which will be implemented according to specific objectives and parameters.

Appendix

Fed reforms ahead: re-establish Fed independence by...

...correcting mission creep, overuse of non-standard policies and institutional bloat

True Fed “independence” and scale back from Mission creep

	Governance Feature	Current Structure	Proposed Reform	Goal
Fed structure reforms	BoG Term Length	14 years	8 years	
	BoG Removal Process	Not at-will	At-will by the President	• Reduce presidential influence on governors
	Regional Fed Ownership	Private	Public (Nationalized)	• Increase independence of regional Reserve banks
	Regional Fed Director Selection	By private institutions	By state governors	• Reduce group thinking
	FOMC Voting Rights	5 Reserve Bank votes (rotating)	12 Reserve Bank votes (all voting)	
Accountability	Fed Budget Oversight	Self-funded (no congressional control)	5-year congressional appropriations	Increase Congressional oversight/accountability Reduce staff bloating

Implementation & avoiding market shocks

- Phase in reforms gradually.
- Announce credible, respected appointments alongside reform plans.
- Apply at-will removal rules only to new officials, not current incumbents

Reform Mission Creep policy

(scale back Fed’s expanding remit from areas traditionally reserved for politics/fiscal policy)

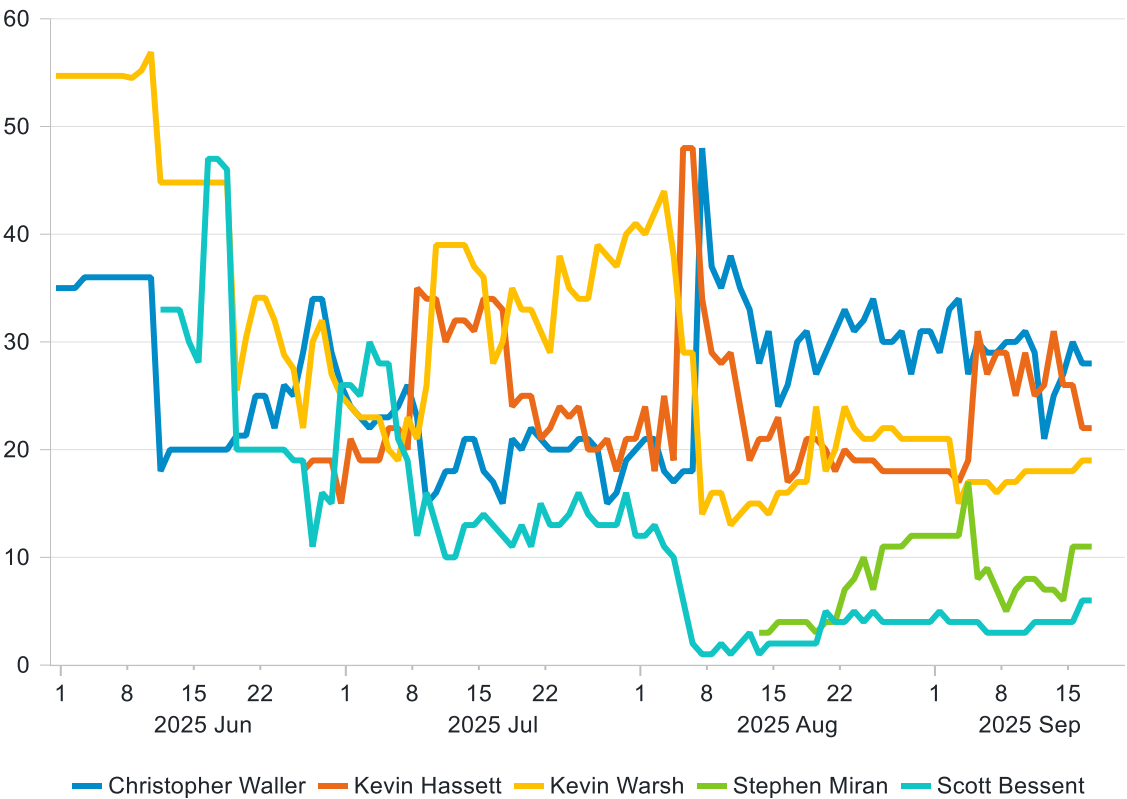
- Separate Bank regulation/supervision from monetary policy and empower FDIC/OCC
- VC of supervision to report to President
- Eliminate bailout culture (QE only during emergency)
- Return “focus” to its mandate of max. employment, stable prices and moderate long-term interest rates.
- Scale back from climate change regulation, discrimination on basis of race, gender, etc.

Source: Fidelity International, [Reform the Federal Reserve’s Governance to Deliver Better Monetary Outcomes](#), [The Fed’s ‘Gain of Function’ Monetary Policy – WSJ](#), September 2025

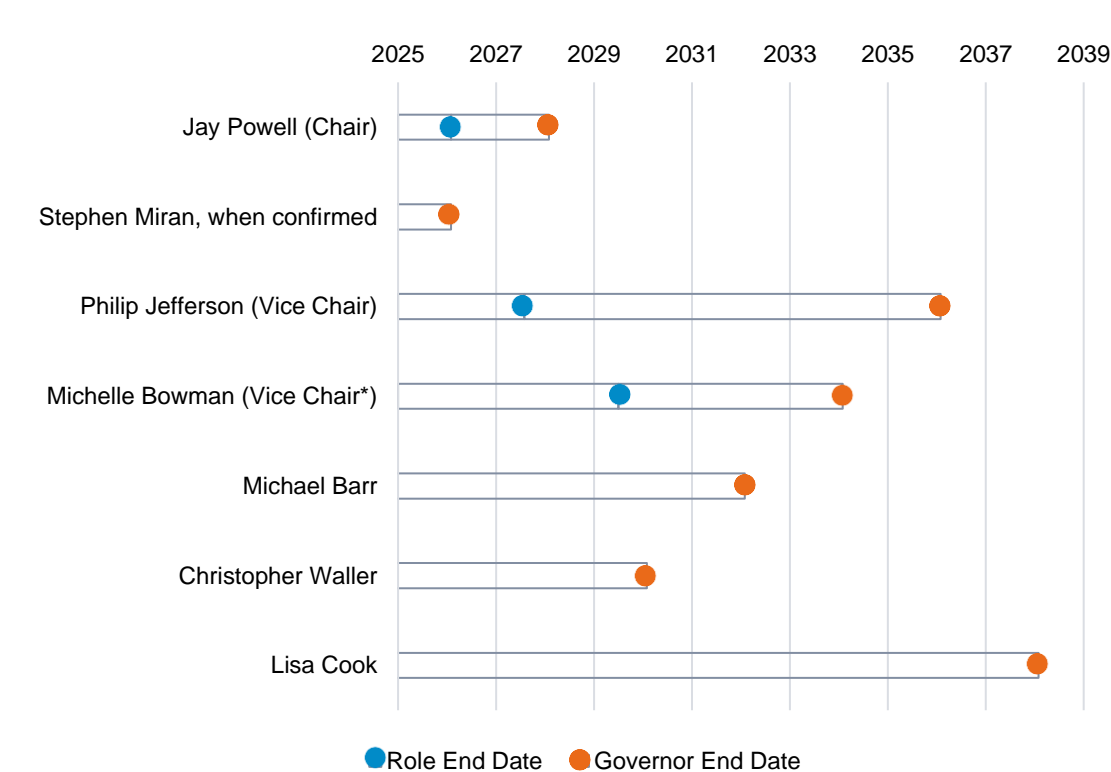
Trump likely to gain “majority” over Fed Board of Governors...

...with the Fed chair race led by Waller and Hassett so far

Polymarket bets for who will be the next Fed chair?



Trump to gain majority over Fed governors



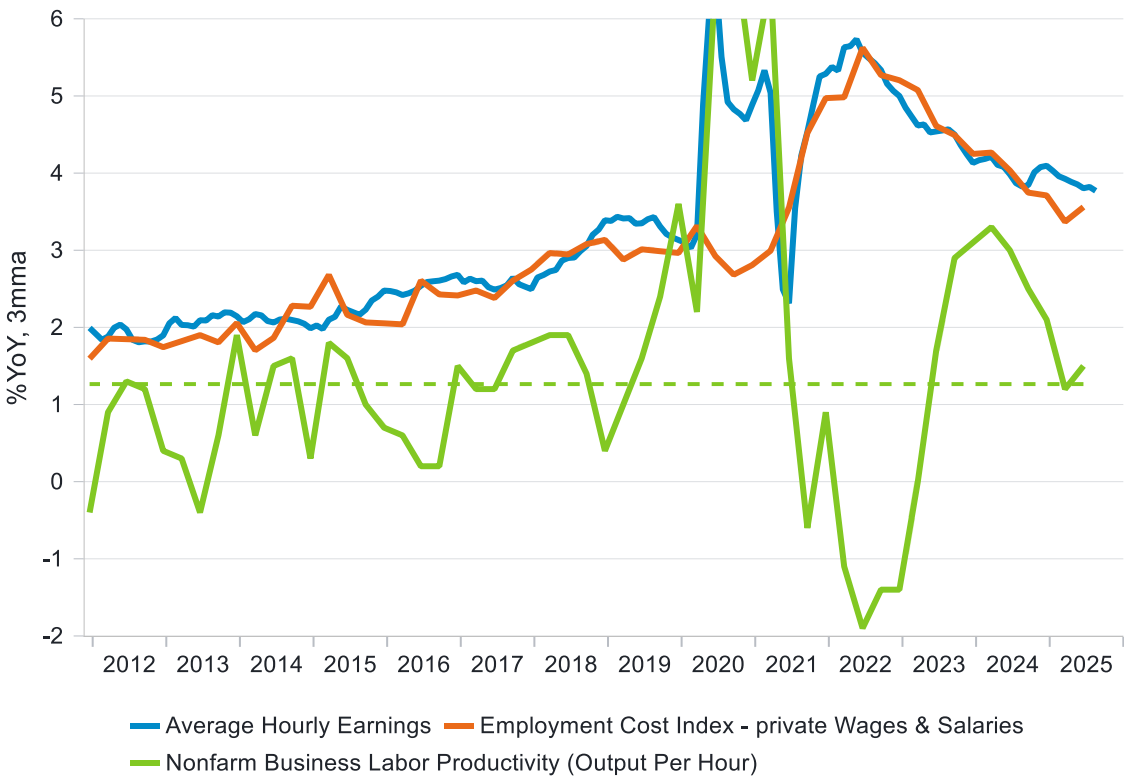
Source: Fidelity International, Bloomberg, Polymarket, September 2025.

*for supervision
Source: Fidelity International, Federal Reserve, September 2025.

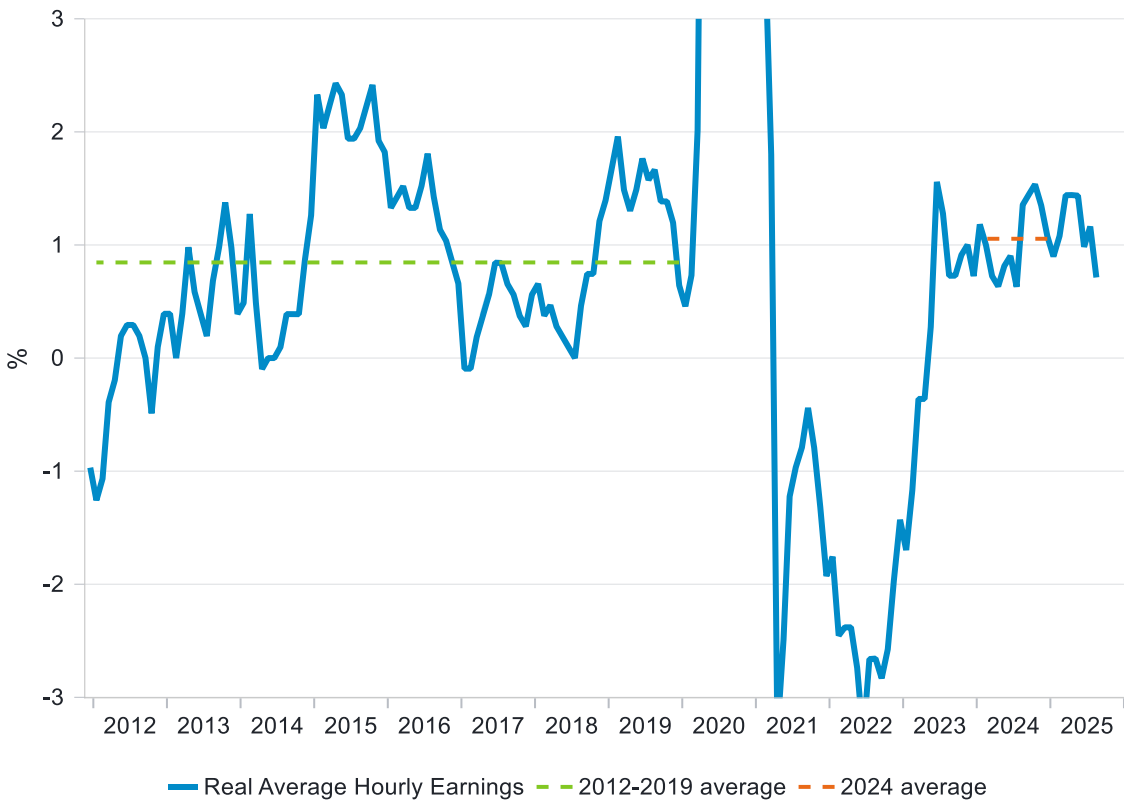
Nominal wages appear to be consistent with 2% inflation target...

...while real wages could likely face more downside in the near term as tariff shocks

Earnings vs productivity



Real average hourly earnings (%YoY)



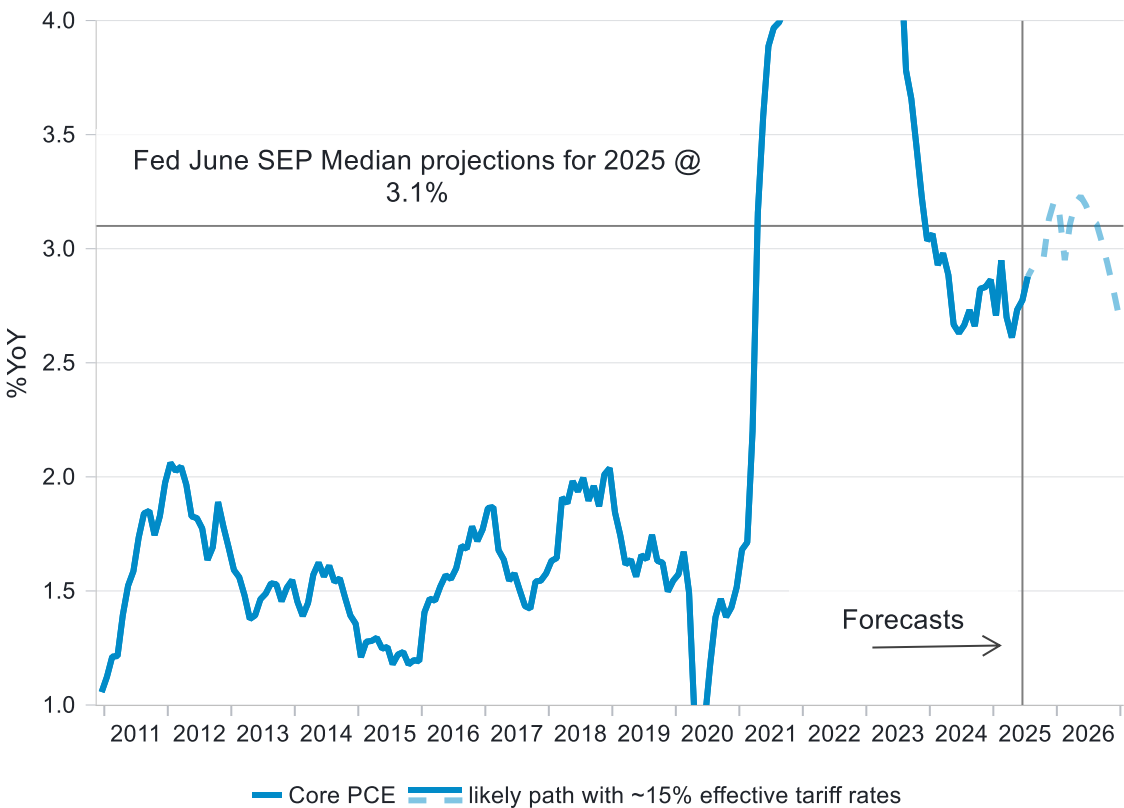
Note: Dotted lines are pre-COVID averages
Source: Fidelity International, Macrobond, BLS, Atlanta Fed, September 2025.

Source: Fidelity International, Macrobond, BLS, September 2025.

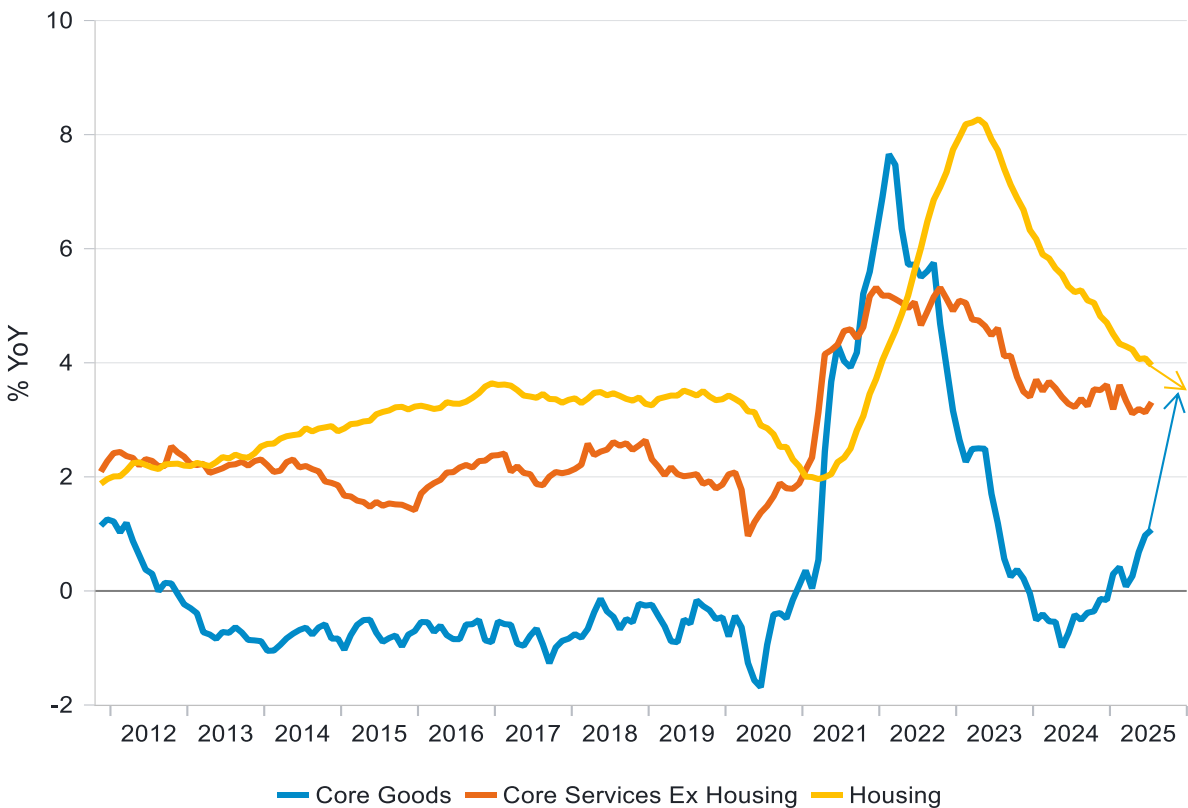
We continue to expect inflation to surprise to the upside this year...

...however, the split between goods and services will be crucial for the Fed call

US Core PCE projections (%YoY)



US Core PCE – components split



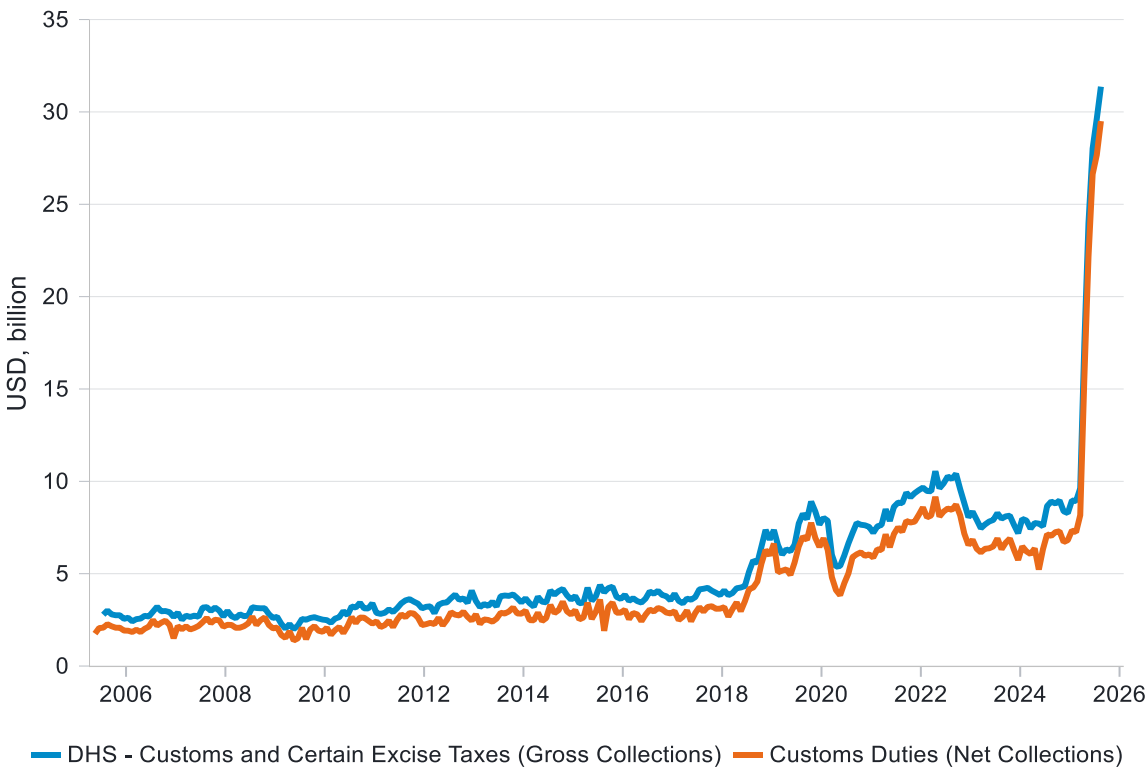
Source: Fidelity International, FIL Global Macro team calculations, Macrobond, BEA, September 2025.

Source: Fidelity International, Macrobond, BEA, September 2025.

Customs collections are currently tracking close to \$30 bn per month...

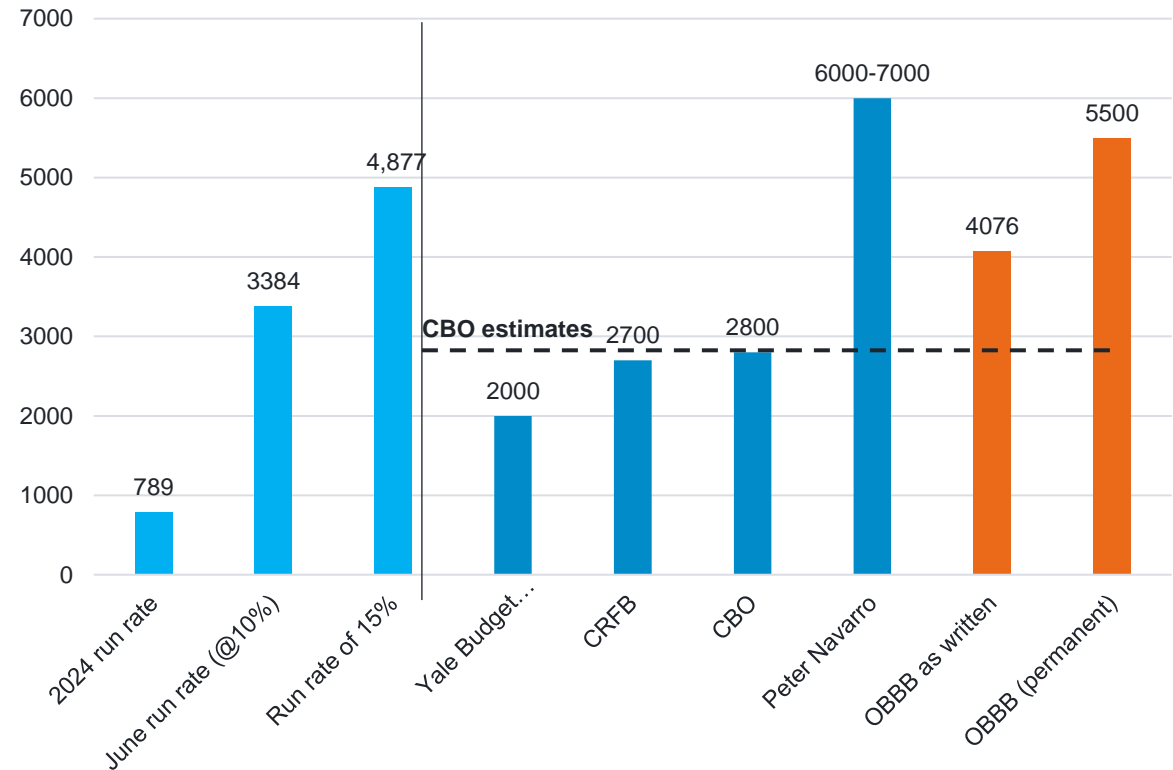
...which is ~260bn (1% of GDP) higher than last year. Observed ETR is at ~10% leaving more room for higher collections.

US custom collections



Note: dots indicate estimates for August 2025 collections that pertain to imports from the previous month
Source: Fidelity International, Macrobond, U.S. Treasury, September 2025.

Custom revenues estimate vs OBBB (over 10-years, in \$ billion)

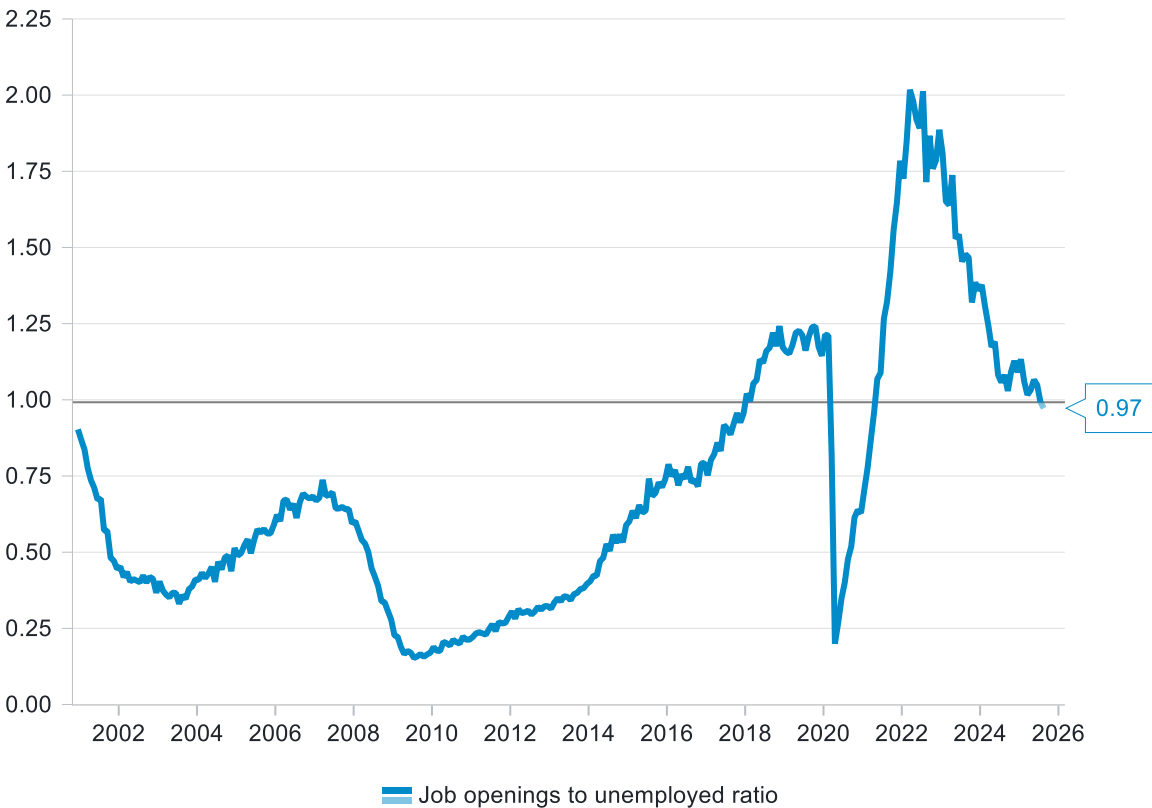


Note: latest CBO estimates as of June 4th are based on tariffs announced as of May 13th (does not include any impact from CIT rulings or 50% tariffs on Steel & aluminium). It assumes 2.5 tn in deficit reduction + 0.5 (interest saving) – 0.3 tn in negative output = 2.8 tn over 10 years.

Source: Fidelity International, CRFB, Macrobond, CBO, Yale budget Lab, August 2025.

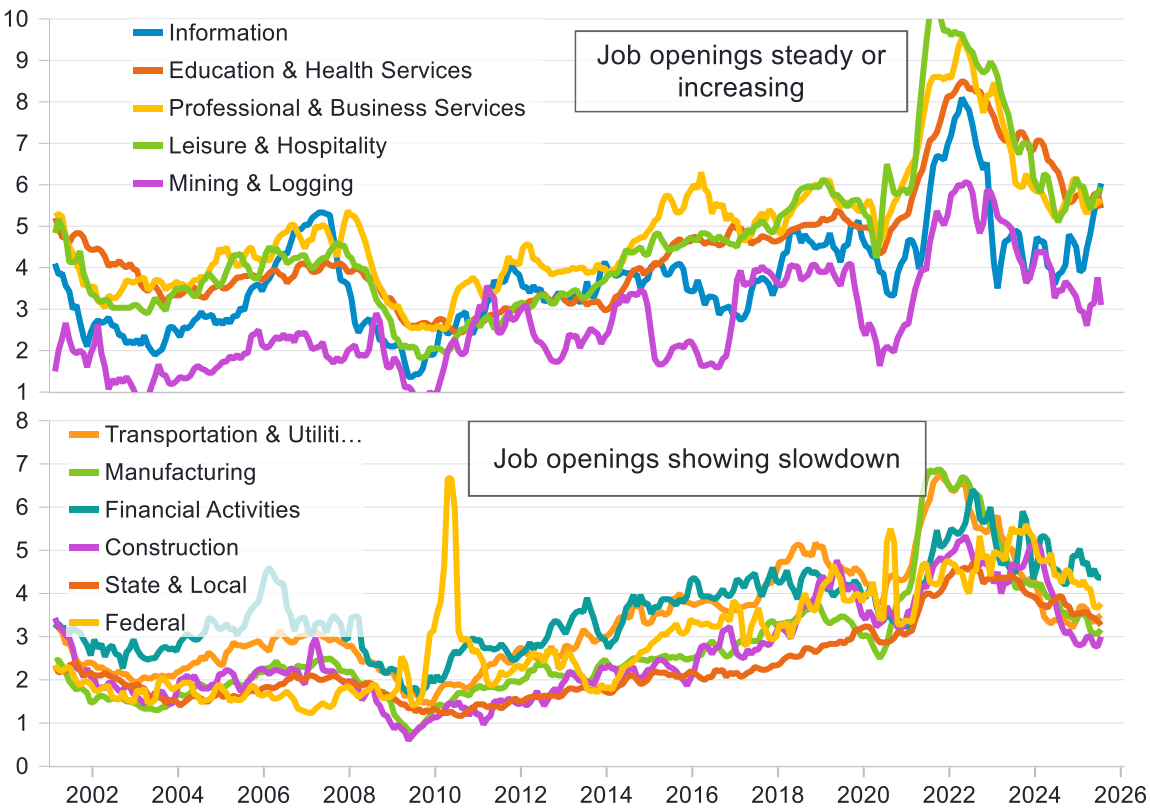
Measures of labour market tightness

US job openings to unemployed ratio



Source: Fidelity International, Macrobond, BLS, September 2025.

Job openings rate as per sector

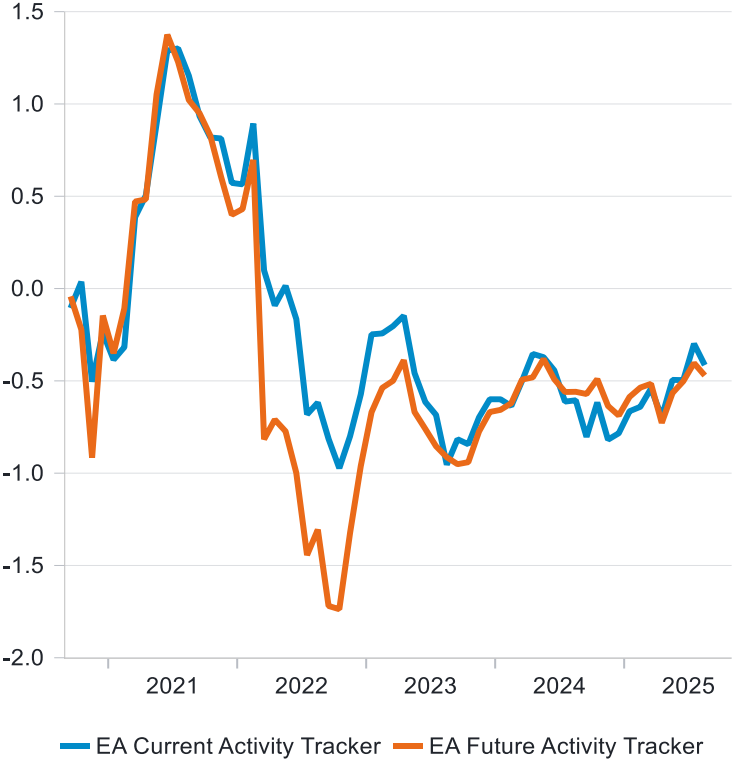


Source: Fidelity International, Macrobond, BLS, September 2025.

Euro area activity trackers show slightly weaker sentiment in August...

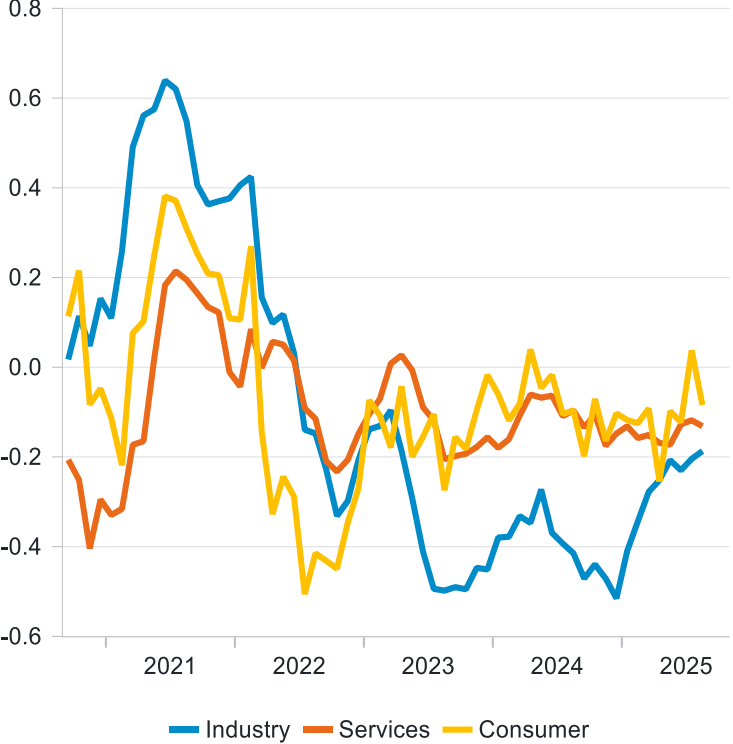
...as services and consumers get affected from tepid growth and political uncertainty. The manufacturing sector keeps chugging along on prospects of increased defence spending and Germany's infrastructure programme

Euro area: CAT and FAT



Source: Fidelity International, FIL Global Macro Team calculations, Macrobond, September 2025.

EA Current Activity Trackers



Source: Fidelity International, FIL Global Macro Team calculations, Macrobond, September 2025.

EA Future Activity Trackers



Source: Fidelity International, FIL Global Macro Team calculations, Macrobond, September 2025.

Indicators underlying our PCAs and Labour Market Tightness Indicator

Updated on a monthly basis

USA PCA Framework – Indicators used

US Current activity tracker
PMI Manufacturing - Production
PMI Manufacturing – Employment
NAHB Single Family Home Sales
Philly Fed Manufacturing Business Activity
Richmond Fed Manufacturing – Capacity Utilisation
PMI Non-Manufacturing - Business Activity
PMI Non-Manufacturing – Employment
Richmond Fed Service Sector - Revenue
Richmond Fed Service Sector – No of Employees (3mma)
UMICH Consumer Sentiment Current Conditions
Conference Board Consumer Confidence Present Situation
Mortgage Purchase Applications
US Future activity tracker
PMI Manufacturing - New Orders
NAHB Single Family Home Sales - In 6 months
Philly Fed Manufacturing - Future Business Activity
Empire State Manufacturing – New orders
Richmond Fed Manufacturing – Capacity Utilisation in 6 months (3mma)
PMI Services - New Orders
PMI Services - New Export Orders
Richmond Fed Service Sector Demand – 6 months ahead (3mma)
UMICH Consumer Sentiment Expectations
Conf. Board Consumer Confidence Expectations
Conf. Board Expectations of Buying New Home in 6M
Richmond Fed Manufacturing wages in 6 months (3mma)

Source: Fidelity International, 2025.

Eurozone PCA Framework – Indicators used

EA Current activity tracker
German Ifo Business Climate: Manufacturing
EC Industrial Confidence
EC Construction Confidence
PMI Manufacturing - Quantity of Purchase
PMI Manufacturing - Production
EC Service Confidence
PMI services
German Ifo - Business Climate: Services
German Ifo - Passenger car demand
EC Consumer Confidence
ZEW Economic Sentiment
EC Retail
EC Employment Expectation
EA Future activity tracker
German Ifo 6 Months ahead
EC Industrial Production expectations
PMI manufacturing New orders*
PMI manufacturing New Export orders*
PMI Construction New orders*
EC Services expected demand over next 3 months
EC Retail trade expected business situation
PMI services New business*
EC Consumption fin situation next 12 months
EC Consumption eco situation next 12 months
Sentix Future

Fidelity Labour Market Tightness Indicator

Dates in brackets show when indicator starts being used
NAIRU minus UR (31/3/1949)
Jobs minus workers (where JOLTS have been extrapolated prior to December 2000 using a composite Help Wanted Index) (31/1/1951)
Employment NFIB firms with positions not able to fill right now (31/10/1973)
NFIB single most important problem: percent reporting quality of labour (31/10/1973)
NFIB Businesses with few or no qualified applicants for job openings (30/04/1993)
JOLTS quits rate / hires rate (31/12/2000)
Full employment normal guesstimate minus part time work for economic reasons % employment (31/7/1955)
Conference board jobs plentiful minus jobs hard to get (31/1/1967)
Atlanta FED wage growth tracker: job switcher minus job stayer (31/3/1997)

Fidelity’s proprietary China Activity Indicator (CH-AI)

China Activity Indicator subcomponents

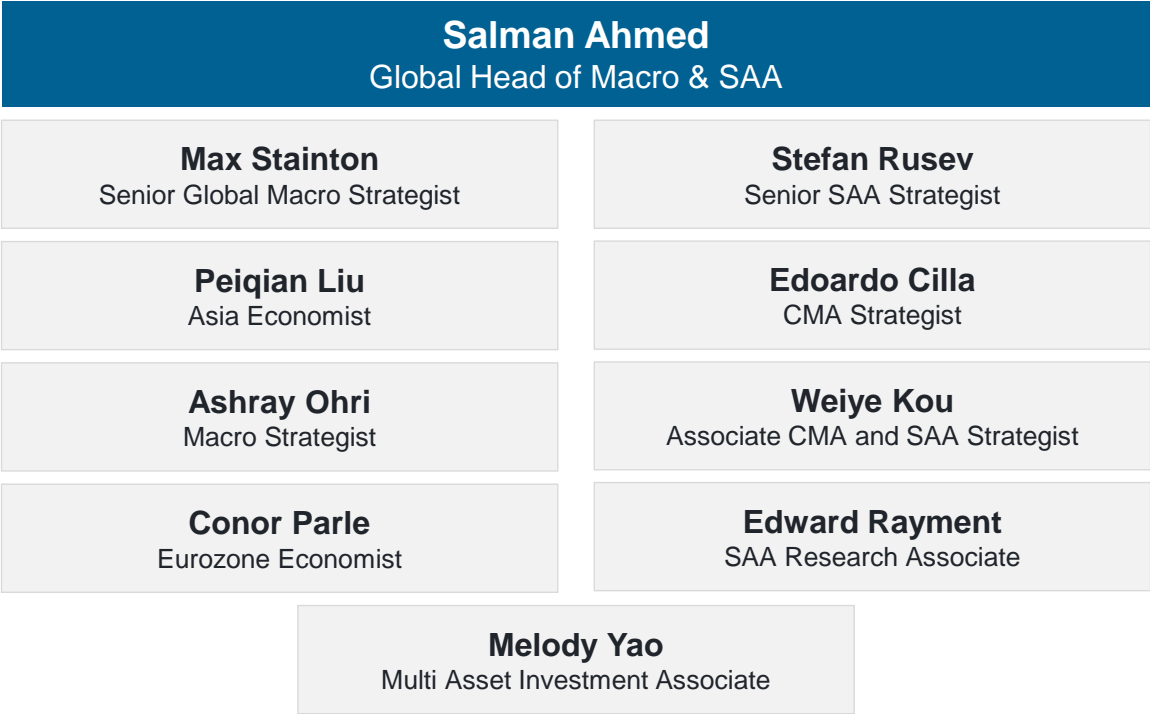
Sector	Indicator List	Weights
Industry	Major Ports Volumes	9.0%
	Caixin manufacturing PMI: Output	7.3%
	Manufacturing PMI: Production	7.3%
	Manufacturing PMI: Employment	6.5%
	Industrial Production	10.3%
	Total Industry	40.4%
Services	Caixin services PMI: Employees	6.5%
	Caixin services PMI: Business Activity	7.5%
	Auto sales	10.2%
	Domestic flight	8.5%
	Total Services	32.6%
Property	Residential property sales	9.7%
	Construction Starts	8.8%
	Cement Production	8.5%
	Total Property	27.0%

Source: Fidelity International, FIL Global Macro Team calculations, 2025.

Global Macro & SAA team

Powering asset allocation across Fidelity’s investment teams

Our team



Our role

- Part of Fidelity Solutions & Multi Asset, working across Fidelity’s investment teams to feed into asset allocation decision making
- Leading research into macroeconomic and market dynamics, supporting asset allocation decisions and establishing core investment views

Evolving Fidelity’s capabilities

- Building out Fidelity’s capabilities in macroeconomic research
- Creating and maintaining Fidelity’s capital market assumptions (CMAs)

Source: Fidelity International, 2025.

Important information

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