



## Q&A Regarding Standard & Poor's Downgrade of U.S. Long-Term Credit Rating

### *RATING DOWNGRADE*

**Q. I understand that the U.S. credit rating has been downgraded. What's happening?**

**A.** That's correct. Ratings agency Standard & Poor's has lowered its long-term sovereign credit rating on the United States from "AAA" to "AA+" with a negative outlook. S&P's maintained its "A-1+" short-term rating on the U.S. – the highest possible short-term rating.

**Q. What does this mean?**

**A.** The rating is a reflection of the nation's creditworthiness, as viewed by S&P. A lower rating may result in investors demanding higher interest rates on Treasury securities, which could – over the long term – raise borrowing costs for the U.S. government.

At the same time, it's important to note that S&P has kept the nation's short-term credit rating at the highest level. In addition, the two other major ratings agencies – Moody's and Fitch – have, for now, kept their rating on the U.S. at "AAA," the highest possible rating.

**Q. Why did S&P do this?**

**A.** Essentially, the downgrade reflects S&P's view that the recent deficit reduction plan agreed to by Congress and the President didn't go far enough to reduce the nation's long-term debt and improve its fiscal imbalances. And, second, S&P has concerns around U.S. policymaking.

S&P stated that the downgrade "...reflects our view that the effectiveness, stability and predictability of American policymaking and political institutions have weakened at a time of ongoing fiscal and economic challenges to a degree more than we envisioned when we assigned a negative outlook to the rating on April 18, 2011."

S&P went on to state that it has changed its view of "...the difficulties in bridging the gulf between the political parties over fiscal policy," which makes the firm "...pessimistic about the government's ability to leverage the recent debt agreement into a broader fiscal consolidation plan that stabilizes the nation's debt dynamics any time soon."

**Q. Has this ever happened before?**

A. No. This is the first time the U.S. has not held a rating of "AAA."

**Q. What does Fidelity think of this downgrade? Do you agree with S&P's assessment of the U.S.?**

A. It's important to note that we don't rely on ratings agencies when making investment decisions for our mutual funds. We have a large team of highly skilled portfolio managers and credit research analysts who perform their own proprietary research and analysis on every security we purchase on behalf of our funds.

With regard to the fiscal situation of the U.S., Fidelity believes that it is critical for policy makers to develop a long-term credible plan for fiscal sustainability and to provide the markets with concrete direction over time. Fidelity has taken a non-partisan approach on the issue. Our efforts have been centered on educating policymakers about the debt and implications for markets and investors.

**Q. Will the other ratings agencies follow S&P and downgrade the U.S.?**

A. That's difficult to predict. It's certainly possible that the other agencies follow S&P's lead on this. However, if the government makes good progress toward more specific solutions that ease the fiscal imbalances that the nation currently faces, the ratings agencies likely should view that progress favorably. The next key development on debt/deficit reduction likely will be November 23, 2011, which is the deadline the new law sets for the newly formed bipartisan committee to produce a deficit reduction bill.

**Q. I'm concerned. Have other countries faced this?**

A. While a debt downgrade can never be viewed as a good thing, the results of a downgrade like this may not be as bad as some commentators have suggested. Canada and Japan both went through credit downgrades and, over time, rebuilt or largely stabilized their fiscal balance sheets and have returned to high investment-grade status. In the interim, of course, they struggled with higher interest rates and fiscal austerity, but in the end came out stronger. Canada

returned to AAA status and Japan has recovered to AA-, two notches below AAA.

### *IMPACT FOR INVESTORS/MARKETS*

**Q. What are the possible implications for investors and consumers?**

- A. It's likely that, over time, borrowing costs for businesses and consumers will likely rise. Investors in U.S. Treasuries may demand at least moderately higher interest rates going forward to purchase U.S. debt. That could translate into higher interest rates for consumers on credit cards, mortgages, college loans, and the like. And this extra strain on the economy and consumers comes at a time of high U.S. unemployment.

All of that said, while it's always difficult to forecast the direction of interest rates, we believe that it's unlikely that interest rates will spike to extreme levels. Offsetting pressure has been coming from weakness in the economy and similar debt challenges in some European countries, which restricts the relative appeal of alternatives to U.S. Treasuries.

Overall, we believe that U.S. government securities are going to remain an attractive asset for investors around the world. However, if policy makers do not make material progress towards fiscal sustainability then more significant upward pressure on interest rates could easily develop.

**Q. What might this mean for stocks?**

- A. It's been a volatile last few weeks for the markets, and, if volatility continues to rise due to nervousness around S&P's downgrade, riskier asset categories such as stocks would likely see the largest price fluctuations.

While there are a number of concerns hanging over the market, including the pace of global economic growth and the debt situation in Europe and the U.S., it's important to remember there are bright spots. For example, corporate earnings remain healthy and generally stock valuations – or their prices relative to earnings – are on the lower side of historical averages. It's important to take a long-term view when investing in stocks.

**Q. What could this mean for the credit markets and fixed-income securities?**

A. As in the equity markets, the downgrade could trigger heightened volatility and nervousness in the fixed-income markets. After downgrading U.S. Treasuries, it's possible that S&P could downgrade issues that are linked to U.S. Treasuries, possibly including government agency bonds, like Fannie Mae and Freddie Mac, pre-refunded municipal bonds that use U.S. Treasuries as collateral, and some state and local municipal bonds whose revenue streams may be heavily dependent on federal aid. Corporate bonds may likely be affected too, because the market uses U.S. Treasury bonds as a reference when pricing other high quality bonds.

Other markets that could be impacted by a downgrade could include the currency and commodity markets. For example, a downgrade could adversely impact the U.S. dollar, which has been declining due to the U.S. fiscal situation, low rates implemented by the Federal Reserve, and concerns over the debt ceiling.

Overall, we believe that U.S. government securities are going to remain an attractive asset for investors around the world. However, if policy makers do not make material progress towards fiscal sustainability then more significant upward pressure on interest rates could easily develop.

**Q. How will this downgrade potentially impact government bond funds and what is Fidelity doing to prepare?**

A. Certainly, the downgrade has the potential to send U.S. Treasury bond yields higher. Following this downgrade, our bond funds, including our Treasury funds, will not be required to sell securities. Our government bond fund managers working with our credit research analysts have always managed our funds with a prudent, conservative approach, using tight risk controls and high standards for credit quality, while maintaining appropriate levels of liquidity – an approach that will remain unchanged.

**Q. What could be the potential impact on other types of bond funds?**

A. The U.S. downgrade could create market disruptions for other fixed-income issuers as well. Treasuries are used as a benchmark for a large portion of the fixed income market; thus, an increase in the yields of Treasury securities could be transmitted to others, creating higher borrowing costs across the fixed income markets. In addition, issuers that are viewed as being supported in some way by the United States, such as GSEs (government sponsored enterprises), states and local governments, could also see their borrowing costs rise.

Again, Fidelity's bond fund managers working with our credit research analysts have always managed our funds with a prudent, risk-controlled approach. Our funds are focused on maintaining appropriate levels of liquidity, and our fund managers are always seeking investment opportunities as bond valuations shift in the marketplace.

**Q. What could this mean for money markets?**

**A.** It's important to keep in mind that this downgrade applies only to the long-term rating of the U.S. S&P maintained the highest possible short-term rating for the country. Fidelity's money market funds are not required to sell any of their U.S. Government securities as a result of this downgrade, so we believe that the impact to short-term money markets will be minimal.

Further, our money market funds continue to be well positioned for the possibility of continued volatility and a range of potential market events. Fidelity's money market mutual funds continue to have significant liquidity. We can state unequivocally that Fidelity's money market funds and accounts continue to provide security and safety for our customers' cash investments.

**Q. Could S&P also downgrade the nation's short-term rating?**

**A.** We don't expect that to happen. Moreover, a downgrade of the short-term rating from the highest category to the second highest category would have no impact on a money market mutual fund's ability to hold or purchase U.S. Government securities.

**Q. Following this downgrade, will Fidelity's money market mutual funds be able to hold repurchase agreements collateralized by U.S. Government securities?**

**A.** Yes, Fidelity's money market funds would be able to continue to hold repurchase agreements collateralized by U.S. Government securities. In addition, the funds have the right to require their repo counterparties to post additional collateral.

**Q. Will Fidelity's money market funds rated AAA by S&P maintain those ratings?**

**A.** Based on S&P's published money market fund rating methodology, the action taken by S&P to downgrade the long-term credit rating of the U.S. by one notch will not impact the "AAA" rating of the Fidelity money market mutual funds rated by S&P.

**Q. Is my Fidelity money market fund investment safe?**

**A.** We can state unequivocally that Fidelity's money market funds and accounts continue to provide security and safety for our customers' cash investments.

Our funds invest in money market securities of high quality, and our customers have full access to their investments anytime they wish. Most importantly, we have been vigilant in keeping our money market funds safe and in protecting the \$1.00 net asset value (NAV), which has always been our No.1 objective in managing these funds.

### *INVESTOR STRATEGIES*

**Q. What should investors consider now?**

- A.** It's understandable that investors are anxious and many may feel that they want to do "something" with regard to their portfolios. For most investors who already have a portfolio that is well diversified among asset classes and within them – and have enough liquidity to meet short-term needs, the answer may be to just sit tight. The ride may be bumpy over the next few weeks or longer. But there often is greater danger in dodging in and out of the market than sticking with a solid, long-term plan. History has shown that near-term market declines, although unnerving at the time, are often followed by rebounds. Investors should give their investment plans time to work for them- over the entire market cycle.

Having said that, if market moves pushed investors' portfolios far from their target asset allocations, it may be time to consider rebalancing. If investors are still about market volatility, now may be a good time to revisit their investment objectives, while taking into consideration their tolerance for risk and time horizons. Beyond that, here are some things to think about:

**Consider your mix of Treasuries or other government bonds.** If you are considering diversifying your bond holdings, think about investment grade bonds from corporations, many of which may be flush with cash now. If Treasury bond prices move lower, corporate bond prices could follow. However, they may decline less. Also think globally, as there are many interesting opportunities in foreign investment grade and high yield corporate or sovereign debt to consider. But be aware that high yield credit and foreign securities can carry significant risk.

**Check your liquidity.** As always you want to have enough cash on hand, so you don't need to tap your investment portfolio if the markets hit a rough patch. Having an adequate emergency fund is important. And if you are retired, you may want to check your income plan to help ensure that you don't have to tap your portfolio too heavily in a market downturn.

**Consider extended asset classes.** While stocks and bonds form the core of most portfolios, you might want to consider some other assets that have historically moved in different directions (uncorrelated). These might include gold and precious metals, which have historically been a good hedge against inflation and currency debasement.

But investors should not do anything rash. A rigorous investment plan is timeless and transcends current events.

###

*Before investing, consider the funds' investment objectives, risks, charges and expenses. Contact Fidelity or visit [advisor.fidelity.com](http://advisor.fidelity.com) for a prospectus or, if available, a summary prospectus containing this information. Read it carefully.*

**Past performance is no guarantee of future results**

**Diversification/Asset Allocation does not ensure a profit or guarantee against loss.**

*An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in the fund.*

**Stock markets are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments.**

**In general the bond market is volatile, and fixed income securities carry interest rate risk. (As interest rates rise, bond prices usually fall, and vice versa. This effect is usually more pronounced for longer-term securities.) Fixed income securities also carry inflation risk and credit and default risks for both issuers and counterparties. Unlike individual bonds, most bond funds do not have a maturity date, so avoiding losses caused by price volatility by holding them until maturity is not possible.**

**Generally, among asset classes stocks are more volatile than bonds or short-term instruments. Government bonds and corporate bonds have more moderate short-term price fluctuations than stocks, but provide lower potential long-term returns. U.S. Treasury Bills maintain a stable value if held to maturity, but returns are generally only slightly above the inflation rate.**

**The gold industry can be significantly affected by international monetary and political developments such as currency devaluations or revaluations, central bank movements, economic and social conditions within a country, trade imbalances, or trade or currency restrictions between countries. Fluctuations in the price of gold and precious metals can dramatically affect the profitability of companies in the gold and precious metals sector and can directly affect the value of the securities issued by such companies.**

Brokerage services provided by Fidelity Brokerage Services LLC, 900 Salem Street, Smithfield, RI 02917, a Fidelity Investments company and a member of NYSE and SIPC.

Custody and other services provided by National Financial Services LLC, 200 Seaport Boulevard, Boston, MA 02110, a Fidelity Investments company and a member of NYSE and SIPC.

Investment and workplace savings plan products and services distributed through investment professionals are offered by Fidelity Investments Institutional Services Company, Inc., 100 Salem Street, Smithfield, RI 02917

590500.1.0/FDC

© 2011 FMR LLC. All rights reserved.