

# Global Economic & Market



## OVERVIEW

May 2006

### United States

Index	Month % Change*	YTD 2006*	Sector	Month % Change*	YTD 2006*
<b>Equities</b>			NASDAQ Composite	-6.10	-.82
Dow Industrials	-1.46	5.27	Russell 1000 Growth	-3.39	-.49
S&P 500	-2.87	2.57	Russell 1000 Value	-2.52	5.97
S&P MidCap 400	-4.51	4.22	MS Consumer	-.43	3.30
Russell 2000	-5.61	7.54	MS Cyclical	-1.35	7.47

Source: Bloomberg & Fidelity Investments

\*Total Return as of 05.31.06

MS = Morgan Stanley

### United States

- Economic data released during May pointed to higher inflation and slower economic growth in the quarters ahead. First-quarter GDP growth was revised upwards to an annual rate of 5.3% from the 4.8% estimated a month ago.
- Inflationary concerns mounted as labor productivity improved by 3.2% in the first quarter, accompanied by a 2.5% rise in labor costs. In response, the Federal Reserve (Fed) raised its benchmark interest rate for the sixteenth consecutive time, increasing rates by one-quarter of a percentage point to 5%, and indicated that it would respond appropriately to economic data releases.
- The Fed chairman remarked that "it is pretty clear now that the US housing market is cooling", and indeed the existing-home sales dipped by 2%.
- Given worries over housing and oil prices, the Conference Board's index of consumer confidence fell during May. A slowdown in economic growth would have important implications for Fed policy.
- May was a difficult month for US equities as the three major equity indices ended the month in negative territory amid less-than-positive economic data.
- The Dow Jones Industrial Average Index fell by 1.8%, and the S&P 500 Composite Index dropped by 3%, while the Nasdaq Composite Index declined by 6.2%.
- In contrast to the previous month, shares in the metals, construction, and energy sectors were the poorest performers in the S&P 500 Composite Index during May.
- Although better-than-expected corporate earnings drove the market to five-year highs at the start of the month, equities plummeted after the Fed raised its benchmark interest rate to 5%.
- Soaring oil prices and higher consumer prices for the second successive month dampened investor sentiment.

# Market Overview



- Meanwhile, former Enron heads Ken Lay and Jeffrey Skilling were found guilty of fraud and conspiracy. Enron's collapse, in 2001, was the one of the biggest-ever bankruptcies in corporate America.

## International Markets

Index	Month % Change*	YTD 2006*	Index	Month % Change*	YTD 2006*
<b>Developed Markets</b>			<b>Emerging Markets</b>		
Japan: Nikkei-225	-7.34	1.25	Hong Kong: HSI	-3.64	8.80
UK: FTSE 100	-1.86	13.02	Singapore: STI	-7.59	8.96
Germany: DAX	-3.77	14.12	Malaysia: KLCI	-1.65	8.86
France: CAC 40	-1.52	15.65	Thailand: SET	-8.85	10.13
Switzerland: SMI	-3.32	10.25	Taiwan: TWSE	-5.25	6.82
Netherlands: AEX	-3.92	11.22	S. Korea: KOSPI	-7.43	1.96
Italy: SMIB	-.47	13.22	Indonesia: JCI	-13.57	21.88
Spain: IBEX	-2.40	16.44	Russia: RTSI\$	-11.51	30.25
			Mexico: MEXBOL	-11.10	-.78
			Brazil: IBOV	-18.19	9.78
			Argentina: Merval	-14.30	5.64

Source: Bloomberg YTD 2006 through 05.31.06

\*Total Return in US\$

## United Kingdom

- For the first time in eight years, the Bank of England's (BoE's) Monetary Policy Committee was split three ways over its decision to leave the benchmark interest rate unchanged. Six members voted to keep the rates on hold at 4.5% for a ninth month, while one policymaker supported a rate increase, and another a cut.
- According to the Office of National Statistics (ONS), inflation climbed to 2% in April, in line with the BoE's target, as high energy prices pushed up airfares.
- Meanwhile, the National Institute for Economic and Social Research reported that the UK economy sustained growth of 0.6% in the three months to the end of April.
- House prices rose by 2% in April compared with March, and increased by 8% on an annual basis, according to a survey conducted by Halifax.
- The manufacturing sector also grew in May as exports strengthened. The Chartered Institute of Purchasing and Supply (CIPS) reported that its Purchasing Managers' Index measured 53.2 in May, down from a revised 54 in April.
- UK equities ended their six-month winning streak amid rising volatility. A sharp drop in commodity prices was the main reason behind the downturn.

# Market Overview



- Investor sentiment was also affected by concerns that higher inflation could prompt a further round of interest-rate increases, particularly in the US.
- During the month, the FTSE All Share Index returned -4.8%. Medium-sized companies were the least impressive performers during the period, returning -5.6%, while small and large-sized companies delivered returns of -5.4% and -4.6% respectively.
- The automobiles & parts manufacturers and industrial sectors declined the most, while fixed-line telecommunications and industrial transport companies bucked the trend.
- Cruise operator Carnival and online gaming company PartyGaming were among the poorest performers in the FTSE 100 Index. While Carnival suffered from a weaker earnings forecast, PartyGaming slumped amid concerns that tighter US laws against internet gambling could hurt its prospects.

## Continental Europe

- The European Commission upgraded its GDP growth forecast for the eurozone to a range of 0.5% to 0.9% for the second and third quarters of 2006.
- The improved outlook was reflected in the European Commission's Economic Sentiment Indicator, which rose to its highest level since April 2001.
- Meanwhile, manufacturing in the region unexpectedly expanded in May at its fastest pace in almost six years.
- In addition, retail sales in Germany rose by 2.8% in April, and the country's unemployment rate dropped to 11% during the month, its lowest level since January 2005.
- The Ifo Institute's Business Confidence Index for Germany slipped marginally in May from a 15-year high in the previous month.
- Eurozone annual inflation rose to 2.5% in May, from 2.4% in April. The European Central Bank (ECB) held its benchmark interest rate at 2.5% in May. However, the president of the ECB, Jean-Claude Trichet, said that the central bank will exercise 'strong vigilance' and signalled that the bank may raise interest rates in June.
- European equity markets remained volatile and ended May in negative territory.
- The MSCI Europe ex UK Index fell by 5.7% in local currency terms.
- European equities had risen earlier in the month, reaching a five-year high amid bid speculation and strong quarterly earnings.
- However, share prices subsequently declined, undermined by concerns about higher interest rates, near-record energy prices, and the euro's rise against the US dollar.
- Nevertheless, the region outperformed Japan and most of the Asian markets in US dollar terms. Corporate deals announced during the month included UBS's plans to buy Banco Pactual of Brazil for approximately US\$2.6 billion, and Austrian oil and chemicals company OMV's acquisition of national utility Verbund for US\$16.7 billion.
- Large companies marginally outperformed smaller companies. Most industry sectors declined, led by basic resources and oil & gas firms, while telecommunications and retail stocks outperformed.

# Market Overview



## Japan

- In its monthly economic outlook, the Bank of Japan (BoJ) upgraded its assessment of the domestic economy. The central bank said that it expects the economy to "expand moderately", replacing the phrase "recover steadily" from its previous report. The upgraded outlook reflects the belief among policy board members that demand will exceed supply over the long term.
- Standard & Poor upgraded Japan's sovereign debt rating from stable to positive, citing the country's improved economic prospects, a buoyant corporate sector, the resolution of bad debt problems, and the elimination of deflationary pressures.
- In a further sign indicative of an end to deflation, the total value of land in Japan rose by 1.4% in the year to January 1, 2006, the first such increase in 15 years. The study, conducted by the BoJ, used a weighted average of land prices taken from reference sites. While residential land prices fell by 0.9% from the previous year, the value of land utilized for commercial purposes rose by 4.0%, reflecting firm demand for office space in and around large cities.
- The yen continued to appreciate against the US dollar in May, closing the month at ¥112.4. Although the aggregate month-on-month change was minimal, Japan's currency has risen from around ¥118.6 in mid-April.
- The strength of the yen and the weakness of the US dollar have been caused by calls from G7 finance ministers for Asian countries to allow their currencies to appreciate, and by expectations that the interest-rate differential between Japan and the US would diminish.
- Towards the end of May, the BoJ injected ¥1.5 trillion into the money market, the highest-ever amount in a single day, as it moved to stem a rise in its target interest rate.
- The uncollateralized overnight call rate climbed to 0.1%, the upper limit of its zero-interest-rate policy. According to a survey conducted by the Nihon Keizai Shimbun, a leading financial newspaper, Japanese companies plan to increase capital investment by 14.5% year on year during the 12 months to March 31, 2007. The gain would mark a third consecutive year of double-digit increases.
- Manufacturers expect to boost capital spending by 17.0% year on year, while non-manufacturers anticipate a rise of 10.3%, the first double-digit increase in 15 years.

## South East Asia

- Economic data released during the month were mixed. GDP growth in the region was strong and unemployment rates remain low.
- However, inflation began to rise once again as fuel and energy prices increased.
- China announced a series of measures in May to cool down its overheated economy. Following its decision to raise the one-year lending rate by 0.27%, the People's Bank of China announced that it would use a combination of monetary tools to slow growth in lending.
- The government has also sought to contain speculative activity in the luxury housing market, and restrictions on bank loans to property developers have been tightened.
- Elsewhere in the region, Korea posted a current-account deficit of US \$1.5 billion in April, its largest since 1997.

# Market Overview



- The Korean government plans to relax rules on investment overseas, and to allow local companies and individuals to purchase property abroad.
- Meanwhile, Taiwan announced that it planned to sign a free-trade agreement with India in order to increase bilateral trade.
- Asia Pacific equities fell sharply in May as uncertainty and caution returned to the markets.
- Higher-than-expected inflation figures in the US triggered the decline amid fears that a slowdown in US consumer demand could adversely affect Asian exports.
- Increased volatility in commodity prices also dampened investor sentiment. As a result, the MSCI AC Asia Pacific ex-Japan Index registered its steepest monthly fall since September 2002, declining by 7.2% in US dollar terms.
- India and Indonesia - both of which had risen to all-time highs earlier in the month - suffered significant declines due to profit taking by foreign funds.
- Stock markets in Korea, Singapore, and Hong Kong also experienced large-scale redemptions by foreign investors, despite encouraging economic data.
- At sector level, more defensive stocks - such as those in the consumer staple and financial sectors - outperformed, while technology and industrials firms underperformed.

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Foreign investments, especially those in emerging markets, involve greater risk and may offer greater potential returns than U.S. investments. This risk includes political and economic uncertainties of foreign countries, as well as the risk of currency fluctuation.

Standard & Poor's 500 Index (S&P 500®) is a market capitalization-weighted index of common stocks. The S&P 500 is a registered service mark of the McGraw-Hill Companies, Inc., and has been licensed for use by Fidelity Distributors Corporation and its affiliates.

Dow Jones Industrial Average (DJIA)

The DJIA tracks 30 of the New York Stock Exchange's largest companies and is calculated officially on a price-weighted basis.

MSCI All Country Asia Pacific ex Japan Index

MSCI All Country Asia Pacific ex Japan Index is a capitalization weighted index that monitors performance of stocks for the Asia Pacific region excluding Japan. It currently consists of the following 13 country indices: Australia, China, Hong Kong, India, Indonesia, Korea, Malaysia, New Zealand, Pakistan, Philippines, Singapore, Taiwan, and Thailand.

MSCI Europe Index ex UK

MSCI Europe Index ex UK is a free float-adjusted market capitalization index that is designed to measure developed market equity performance in Europe. As of December 2003, the MSCI Europe Index consisted of the following 15 developed country indices: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden and Switzerland.

# Market Overview



## Morgan Stanley Consumer Index

The Morgan Stanley Consumer Index is designed to measure the performance of consumer-oriented, stable growth industries through price changes in 30 component stocks representing 20 industries. Major industries include beverages, food, pharmaceuticals, tobacco and personal products.

## Morgan Stanley Cyclical Index

The Index is equal-dollar weighted, designed to ensure that each of the securities is represented in approximate equal dollar value. The Index was established with a benchmark value of 200.00 on December 31, 1991. To further ensure that each component stock continues to represent approximate equal weight in the Index, adjustments are made annually, based on closing prices on the third Friday in December.

## Nasdaq Composite Index

The Nasdaq Composite Index is a market capitalization-weighted index that is designed to represent the performance of the National Market System which includes over 5,000 stocks traded only over-the-counter and not on an exchange.

## Russell 1000 Growth Index

The Russell 1000 Growth Index is a market capitalization-weighted index of those stocks of the 1,000 largest U.S. domiciled companies that exhibit growth-oriented characteristics.

## Russell 1000 Value Index

Russell 1000 Value Index is a market index capitalization-weighted index of those stocks of the 1,000 largest U.S. domiciled companies that exhibit value-oriented characteristics.

## Russell 2000 Index

Russell 2000 Index is a market capitalization-weighted index of the stocks of the 2,000 smallest companies included in the Russell 3000 Index. The Russell 3000 Index comprises the 3,000 largest U.S. domiciled companies.

Russell 1000 Growth, 1000 Value, and 2000 are registered service marks of Frank Russell Company.

## Standard & Poor's 500 Index (S&P 500)

Standard & Poor's 500 Index (S&P 500) is a market capitalization-weighted index of 500 common stocks chosen for market size, liquidity, and industry group representation to represent U.S. equity performance.

## Standard & Poor's MidCap 400 Index (S&P MidCap 400)

Standard & Poor's MidCap 400 Index (S&P MidCap 400) is a market capitalization-weighted index of 400 medium-capitalization stocks chosen for market size, liquidity, and industry group representation.

## Italy: SMIB

The MIB 30 is a capitalization-weighted index of the 30 top Italian companies traded on the Milan Stock Exchange. The index has a base value of 10,000 on December 31, 1992. This index is based on a current market capitalization-weighted methodology.

## Singapore: STI 35

The STI is a well-known benchmark for the performance of the Singapore stock market. The STI is composed of some of the largest companies in terms of capitalization listed on the SGX-ST whose shares are among the most frequently traded. Some familiar names are: UOB Bank, Singapore Airlines, DBS Group Holdings, OCBC Bank, Singapore Press Holdings and Singapore Telecom.

## Malaysia: KLCI

The Kuala Lumpur Stock Exchange Composite Index is a broad-based capitalization-weighted index of 100 stocks designed to measure the performance of the Kuala Lumpur Stock Exchange. This index is an exact copy of KLCI. Please refer to KLCI Index for full fundamental and descriptive information.

# Market Overview



## Thailand: SET50

This index, calculated from a small number of listed common stock, will be constructed and composed of listed securities that can represent the majority of the total market capitalization and total market turnover of SET. Moreover, this index should be able to move along with the existing SET index. A preliminary study indicates that market capitalization and turnover of the top 50 listed stocks ranked by their market capitalization can represent the majority of the total market since increasing the number of stocks to the top 100 changes the proportion of total market capitalization and total market turnover by a relatively small amount. Therefore, it is proposed that the new index should comprise 50 listed common stocks with high market capitalization and high liquidity and is to be called the "SET 50 Index". The new SET 50 Index should not only be able to move along with the existing SET Index, but also be used as a benchmark to measure the performance of fund managers investing in the Thai stock market.

## Japan: Nikkei 225

Short for Japan's Nikkei 225 Stock Average, the leading and most-respected index of Japanese stocks. It is a price-weighted index comprised of Japan's top 225 blue-chip companies on the Tokyo Stock Exchange. The Nikkei is equivalent to the Dow Jones Industrial Average Index in the U.S. In fact, it was called the Nikkei Dow Jones Stock Average from 1975 to 1985.

## China: Hang Seng (HSI)

The Hang Seng Index is a capitalization-weighted index of 33 companies that represent approximately 70 percent of the total market capitalization of the Stock Exchange of Hong Kong. The components of the index are divided into four subindexes: Commerce and Industry, Finance, Utilities, and Properties. The index was developed with a base level of 100 as of July 31, 1964.

## UK: FTSE 100

An index of the share prices of the 100 largest companies (by market capitalization) in the UK which is updated throughout the trading day in real time. The index was started in 1984 with a base of 1,000. See also FTSE Actuaries All-Share Index.

## UK: FTSE All Share Index

The FTSE All-Share Index is a capitalization-weighted index comprising of the FTSE 350 and the FTSE Small-Cap Indices. The index was developed with a base value of 100.00 as of April 10, 1962.

## Germany: DAX

The German Stock Index is a total return index of 30 selected German blue chip stocks traded on the Frankfurt Stock Exchange. The DAX has a base value of 1,000 as of December 31, 1987. As of June 18, 1999 only XETRA equity prices are used to calculate all DAX indices.

## France: CAC-40 Index

It is a narrow-based, modified capitalization-weighted index of 40 companies listed on the Paris Bourse. The index was developed with a base level of 1,000 as of December 31, 1987.

## Switzerland: SMI

The SMI (Swiss Market Index) is Switzerland's blue-chip index, which makes it the most important in the country. It is made up of a maximum of 30 of the largest and most liquid SPI® large- and mid-cap stocks. As a price index, the SMI is not adjusted for dividends, but a performance index that takes account of such distributions is available (the SMIC - SMI Cum Dividend). The securities contained in the SMI currently represent more than 90 % of the entire market capitalization, as well as of 90 % trading volume, of all Swiss and Liechtenstein equities listed on the SWX Swiss Exchange. Because the SMI is considered to be a mirror of the overall Swiss stock market, it is used as the underlying index for numerous derivative financial instruments such as options, futures and index funds (e.g. ETFs).

# Market Overview



## Spain: IBEX

The IBEX 35 is the official index of the Spanish Continuous Market. The index is comprised of the 35 most liquid stocks traded on the Continuous market. It is calculated, supervised and published by the Sociedad de Bolsas. The equities use free float shares in the index calculation. The index was created with a base level of 3000 as of December 29, 1989.

## Indonesia: JCI

The Jakarta Stock Price Index is a modified capitalization-weighted index of all stocks listed on the regular board of the Jakarta Stock Exchange. The index was developed with a base index value of 100 as of August 10, 1982. Please look at CDR JA<GO> for exchange trading days.

## Mexico: MEXBOL

The Mexican Bolsa Index, or the IPC (Indice de Precios y Cotizaciones), is a capitalization-weighted index of the leading stocks traded on the Mexican Stock Exchange. The index was developed with a base level of .78 as of October 30, 1978.

## Brazil: IBOV

The Bovespa Index is a total return index weighted by traded volume and is comprised of the most liquid stocks traded on the Sao Paulo Stock Exchange. The Bovespa Index has been divided 10 times by a factor of 10 since January 1, 1985, those dates are: 12/02/85, 04/14/89, 05/28/91, 01/26/93, 02/10/94, 08/29/8801/12/90, 01/21/92, 08/27/93, 03/03/97. Shares in Index displayed in Millions.

## Argentina: Merval

The Argentina Merval Index is the market value of a stock portfolio, selected according to participation in the Buenos Aires Stock Exchange, number of transactions and trading value. The index has a base value of \$0.01 as of June 30, 1986. The index is revised every 3 months, taking into account the trading volumes over the past 6 months.

## Tokyo Stock Exchange Stock Price Index (TOPIX)

The Tokyo Stock Exchange Stock Price Index (TOPIX) is a market capitalization-weighted index of the largest and better established stocks traded on the Tokyo Stock Exchange.

## Netherlands: AEX

The Amsterdam Exchanges Index is a weighted arithmetic average index of the leading Dutch Stocks traded on the Amsterdam Stock Exchange.

## Taiwan: TWSE

The Taiwan TAIEX Index is a capitalization weighted index of all listed common shares traded on the Taiwan Stock Exchange.

## South Korea: KOSPI

The Korean Stock Price Index is a capitalization-weighted index of all common shares on the Korean Stock Exchanges.

## Russia: RTSI\$

The Russian Trading System Index is a capitalization weighted index that is calculated in USD. The index is comprised of stocks traded on the Russian Trading System and uses free-float adjusted shares.

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