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Market Analysis, Research & Education
A unit of Fidelity Management & Research Company

Q4 2010: Sector Snapshot

This article summarizes some key factors that influenced returns of the major U.S. equity market sectors during the fourth quarter of 2010.

Energy +21.5%

- Rising crude-oil (+14% per barrel) and natural gas (+14%) prices provided a favorable backdrop for the stocks of energy producers.[i]
- Equipment & services was the top-performing industry, as rising rig counts and non-conventional drilling practices reflected an expectation for increasing demand for oil amid a re-acceleration of the domestic and global economies.
- The stocks of coal producers benefited from higher coal prices (+25%) and ongoing incremental demand from emerging-market economies.[ii]

Materials +19.0%

- Strong global industrial production activity, brisk demand from emerging markets, and a re-accelerating U.S. economy led to higher demand for industrial metals (13.0%). Against this backdrop, the stocks of metals & mining producers significantly outperformed the broader market.[iii]
- Also driving the gains in commodity prices was a new round of quantitative easing from the Federal Reserve that contributed to increased global liquidity, a weakening U.S. dollar, and higher inflation expectations.
- Agricultural commodity prices returned to near record levels reached in mid-2008 amid supply challenges and rising food demand, which helped place agricultural stocks among the sector's top performers.[iv]

KEY TAKEAWAYS

- **For the second consecutive quarter, all 10 U.S. equity market sectors generated positive returns, resulting in a 10.8% advance for the broader market (S&P 500 Index).**
- **The best-performing sectors were more economically sensitive (consumer discretionary, financials, and industrials) and commodity-oriented (energy, materials) amid a re-acceleration of the U.S. economy, further quantitative easing from the Federal Reserve, strong corporate profit growth, and rising commodity prices.**
- **Defensive-oriented sectors, such as utilities, health care and consumer staples, were the worst performers during the fourth quarter.**

Consumer Discretionary +12.6%

- Better-than-expected data on consumer spending, income levels, job creation, retail sales, and hotel occupancy fueled positive sentiment throughout the sector, as most industry groups posted solid gains.
- Legislation approved in December, including the extension of the Bush-era tax cuts and a payroll tax reduction, was seen as potentially putting more money in consumers' pockets.
- Generally speaking, the stocks of companies in the apparel, hotel, restaurant, leisure, and retail industries that provide products marketed to the higher end of the consumer market were leaders.

Industrials +11.8%

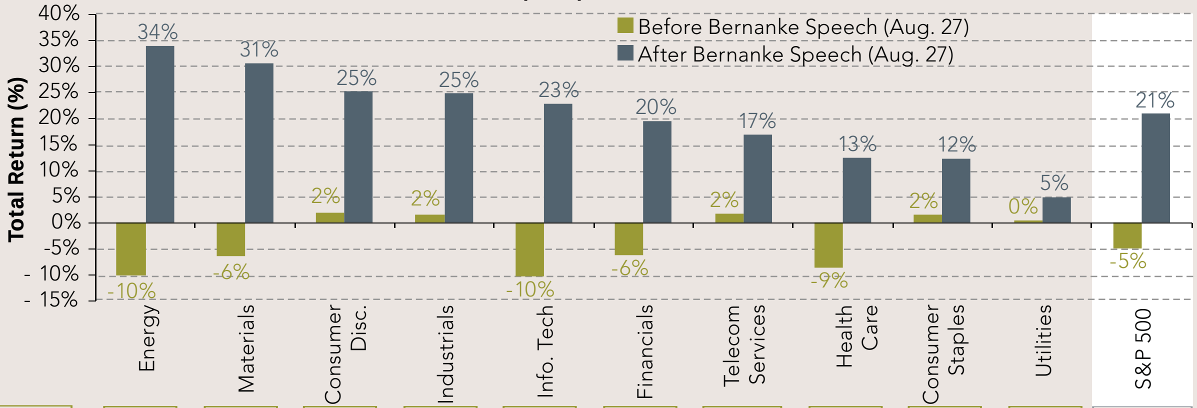
- A healthy global economic climate, combined with low corporate borrowing rates and increased capital spending, provided support for the sector, as most companies had positive returns.
- Machinery stocks were standouts, as strong global industrial production levels aided heavy equipment and truck manufacturers, while agricultural product demand provided a boost to farm equipment manufacturers.
- Greater confidence on the outlook for the economy also lifted the stocks of economically sensitive railroad operators, and air freight & logistics transporters.

2010: A Tale of Two Markets

Through nearly the first eight months of 2010, most sectors had performed poorly, with only a few having generated positive returns on a year-to-date basis. However, that all changed after Federal Reserve Chairman Ben Bernanke's speech at Jackson Hole, Wyoming on Aug. 27, when the central banker signaled to the world that the Fed would consider additional purchases of longer-term securities (i.e., quantitative easing) as a strategy to provide additional stimulus to the economy. The expectation of greater liquidity support from the Fed, in addition to improved economic data, provided support for stocks during the remaining four months of the year. Among the sectors benefiting the most from the market's enthusiasm for stocks were the more economically sensitive sectors, including energy, materials, industrials, consumer discretionary and information technology.

U.S. Equity Sector Performance

(2010)



2010 Return	20%	23%	28%	27%	10%	12%	19%	3%	14%	6%	15%

Source: FMRCo (MARE) as of 12/31/10. Past performance is no guarantee of future results. Sector investing involves risk. Because of its narrow focus, sector investing may be more volatile than investing in a more diversified basket of securities. Investing in sectors may be more volatile than diversifying across many industries. You cannot invest directly in an index. Sector returns represented by S&P 500 sectors.

- Aerospace & defense stocks generally lagged the broader market due to growing expectations that defense spending cuts may be included in future efforts to rein in the federal budget deficit.

Financials +11.6%

- Improving business fundamentals were a tailwind that boosted many areas of the financials sector.

- Rising net interest margins, due to a steepening of the yield curve brought about by higher long-term interest rates, as well as merger speculation, provided support for commercial banks.

- A strong rally in many financial markets benefited the stocks of capital markets (asset management and brokerage firms) and diversified financial services companies (large banks). Within diversified financials, banking institutions that were perceived to have a greater exposure to mortgage put-backs (forced repurchases of loans due to inadequate underwriting) tended to lag.

- Rising interest rates held back the stocks of insurance companies, many of whom hold large bond porfolios (as interest rates rise, bond prices fall).

Information Technology +10.2%

- The stocks of companies with exposure to strong-selling technology products, such as tablet computers and smartphones, generally led the sector's advance.

- Semiconductor stocks bounced back during the quarter based on a growing consensus of better-than-expected seasonal demand for the beginning of 2011, driven by new product cycles, and with lean inventories quelling fears of excess supply of components.

- Stocks of companies providing "cloud" or Internet-based computing software and services also fared well. The adoption of this outsourcing trend—allowing companies to increase tech capacity or add capabilities without investing in new infrastructure—accelerated during the quarter.

Telecom +7.3%

- This defensive, relatively lower growth and high-dividend-paying sector underperformed relative to other, more economically sensitive sectors amid a climate of economic improvement and investor demand for higher-beta stocks.
- The expectation of new legislation that would extend tax breaks for dividend income provided some support for high-dividend-paying telecom stocks, though rising bond yields served to somewhat dampen the relative attractiveness of dividend income.

Consumer Staples +6.1%

- Although sales trends generally were respectable in many industry groups, this typically defensive sector trailed the broader market amid investors' penchant for the stocks of companies whose profits tend to increase during an improving economy.
- Manufacturers of higher-end products generally performed better within the beverage, food & staples retailing, and food products industries.
- Rising agricultural commodity prices were a headwind for food product manufacturers and food retailers, as higher input costs put pressure on these companies' profit margins.

Healthcare +3.7%

- The sector's performance by and large was hindered by greater demand for more economically sensitive stocks, lower-than-expected demand for health care amid high unemployment, and uncertainty after the U.S. midterm elections surrounding how the political environment would affect the implementation of the health care legislation.
- Pharmaceuticals was the biggest industry detractor, as the group was seen as having slower growth prospects relative to other market segments due to upcoming patent expirations for branded drugs combined with weak product pipelines. The stocks of companies focused on generic drug manufacturing, however, outperformed the broader market.
- Solid profit growth and merger activity helped stocks in the life sciences & tools industry outperform the broader market.

Utilities +1.1%

- The rotation to riskier sectors that occurred during the quarter hurt returns for utilities stocks, viewed as a defensive-oriented sector.
- Rising bond yields also may have made the dividend yields provided by utilities look relatively less attractive.

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Investment decisions should be based on an individual's own goals, time horizon, and tolerance for risk. Investing includes risk, including the risk of loss.
Past performance is no guarantee of future results.

Sector performance figures in green have been rounded.

[i] Crude oil price represented by the Light Sweet Crude Oil Futures Price: 1st Expiring Contract. Natural gas price represented by Natural Gas Futures Price: 1st Expiring Contract. Source: Wall Street Journal, Haver Analytics, FMRCo. (MARE) as of 12/31/10.
[ii] Coal represented by the NYMEX Central Appalachian Coal Futures 1st Exp Contract. Source: Department of Energy, Haver Analytics, FMRCo. (MARE) as of 12/31/10.
[iii] The S&P GSCI Industrial Metals Index rose 13.0% during Q4 2010. Source: Standard and Poor's, Haver Analytics, FMRCo. (MARE) as of 12/31/10.
[iv] The S&P GSCI Agriculture Index rose 27.2% during Q4 2010. Source: Standard and Poor's, Haver Analytics, FMRCo. (MARE) as of 12/31/10.

S&P 500 Index 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. Sectors defined by the Global Industry Classification Standard (GICS).

S&P GSCI Commodities Index is a world-production-weighted index composed of 24 widely traded commodities. All sub-indices of the S&P GSCI™ sub-indices (energy, industrial metals, precious metals, and agriculture and livestock) follow the same rules regarding world production weights, methodology for rolling and other functional characteristics.

Indices are unmanaged and you cannot invest directly in an index.

Sector and Industry Performance (Q4 2010 and 2010)*

Weight	Sector / Industry	Q4 Return	2010 Return
12.03	Energy	21.48	20.35
2.17	Energy Equipment & Services	32.33	35.57
9.86	Oil Gas & Consumable Fuels	19.31	17.45
3.74	Materials	19.03	22.93
1.26	Metals & Mining	22.47	28.35
0.05	Construction Materials	20.92	-13.76
0.14	Paper & Forest Products	20.54	0.92
2.12	Chemicals	17.68	23.14
0.16	Containers & Packaging	11.12	19.62
10.63	Consumer Discretionary	12.64	27.57
0.62	Automobiles	35.10	63.62
0.25	Auto Components	24.02	33.49
0.07	Distributors	16.06	40.51
0.56	Textiles Apparel & Luxury Goods	13.70	35.86
0.84	Internet & Catalog Retail	12.47	38.75
3.12	Media	11.79	23.07
1.72	Hotels Restaurants & Leisure	11.34	37.22
1.96	Specialty Retail	11.25	21.02
0.14	Leisure Equipment & Products	11.04	37.04
0.42	Household Durables	10.95	23.00
0.84	Multiline Retail	10.44	22.57
0.10	Diversified Consumer Services	-13.59	-35.28
10.95	Industrials	11.81	26.90
0.19	Construction & Engineering	23.05	27.62
2.29	Machinery	18.80	54.10
0.04	Building Products	15.72	-6.21
0.15	Trading Companies & Distributors	14.91	46.44
0.11	Professional Services	14.74	10.37
0.83	Road & Rail	12.95	39.73
0.53	Electrical Equipment	11.37	41.73
1.10	Air Freight & Logistics	10.76	28.45
2.48	Industrial Conglomerates	10.32	18.70
2.65	Aerospace & Defense	8.29	15.11
0.48	Commercial Services & Supplies	7.00	13.20
0.08	Airlines	-0.65	13.73
16.06	Financials	11.57	12.10
3.00	Commercial Banks	19.43	21.10
2.54	Capital Markets	16.50	4.33
0.05	Real Estate Management & Development	12.03	50.92
4.29	Diversified Financial Services	11.12	4.58
1.47	Real Estate Investment Trusts (REITs)	8.87	30.87
0.10	Thrifts & Mortgage Finance	6.59	-7.41
3.90	Insurance	6.03	15.80
0.71	Consumer Finance	5.31	11.07

Weight	Sector / Industry	Q4 Return	2010 Return
18.65	Information Technology	10.24	10.10
3.98	Software	14.38	8.25
2.51	Semiconductors & Semiconductor Equipment	14.11	10.35
1.92	Internet Software & Services	13.24	2.47
0.14	Office Electronics	11.71	38.49
4.42	Computers & Peripherals	10.37	24.83
0.45	Electronic Equipment Instruments & Components	9.41	3.90
3.00	IT Services	7.23	8.32
2.23	Communications Equipment	0.87	-2.19
3.11	Telecommunications Services	7.34	18.97
2.79	Diversified Telecommu-nication Services	8.43	18.80
0.32	Wireless Telecommunication Services	-1.28	21.11
10.63	Consumer Staples	6.11	14.11
2.55	Beverages	7.48	18.00
2.36	Food & Staples Retailing	7.07	8.91
2.22	Household Products	6.07	7.18
1.58	Tobacco	5.38	27.70
0.19	Personal Products	4.16	16.73
1.73	Food Products	3.80	14.49
10.91	Health Care	3.70	3.03
0.50	Life Sciences Tools & Services	17.24	24.34
0.06	Health Care Technology	12.80	13.00
1.59	Health Care Equipment & Supplies	8.90	-3.69
1.94	Health Care Providers & Services	8.33	10.72
1.30	Biotechnology	2.58	1.95
5.52	Pharmaceuticals	-0.07	0.95
3.30	Utilities	1.09	5.91
0.07	Gas Utilities	19.97	34.85
1.29	Multi-Utilities	1.15	11.08
1.77	Electric Utilities	0.54	3.43
0.17	Independent Power Producers & Energy Traders	-0.22	-14.00
100.0	**Total (S&P 500 Index)**	**10.76**	**15.06**

*All returns are cumulative for S&P 500 GICS sectors and industries in stated time periods through Q4 2010. Weight shows ending sector/industry weighting within the S&P 500 Index during Q4 2010. Source: FactSet, FMRCo (MARE) as of 12/31/2010.

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