Commentary

Quarterly Business Cycle Update (Q3 2025)

U.S. economy remains robust, but tariff hikes could curtail future growth

United States

- The U.S. exhibits a wide range of cycle dynamics, including solid mid-cycle indicators and signs of softening activity.
- Federal funding cuts, layoffs and rising uncertainty led to a decline in consumer sentiment and slower spending.
- The trend in business investment and corporate profitability remained positive, boosted by outlays for AI by large technology and communications companies.
- Policy uncertainty, particularly around tariff rates, weighed on smaller businesses and other sectors.
- We expect inflation to remain rangebound around 3% into 2026, with upside risk from tariff hikes.
- The labor market remains tight, despite some softening.

Global

- The global business cycle remains in expansion, with a broad shift toward monetary easing, including in the eurozone and the UK.
- Tariff hikes in the U.S. may provoke meaningful headwinds for countries with large U.S. trade relationships.
- A renewed commitment to fiscal expansion in the eurozone through defense spending may spark an upturn in business sentiment.
- China, Europe, and Canada displayed some hopeful indicators of improved cyclical momentum.
- China is seeing signs of improvement through a pickup in industrial activity and regulatory policy easing.
- Earnings growth in emerging markets showed strong momentum.

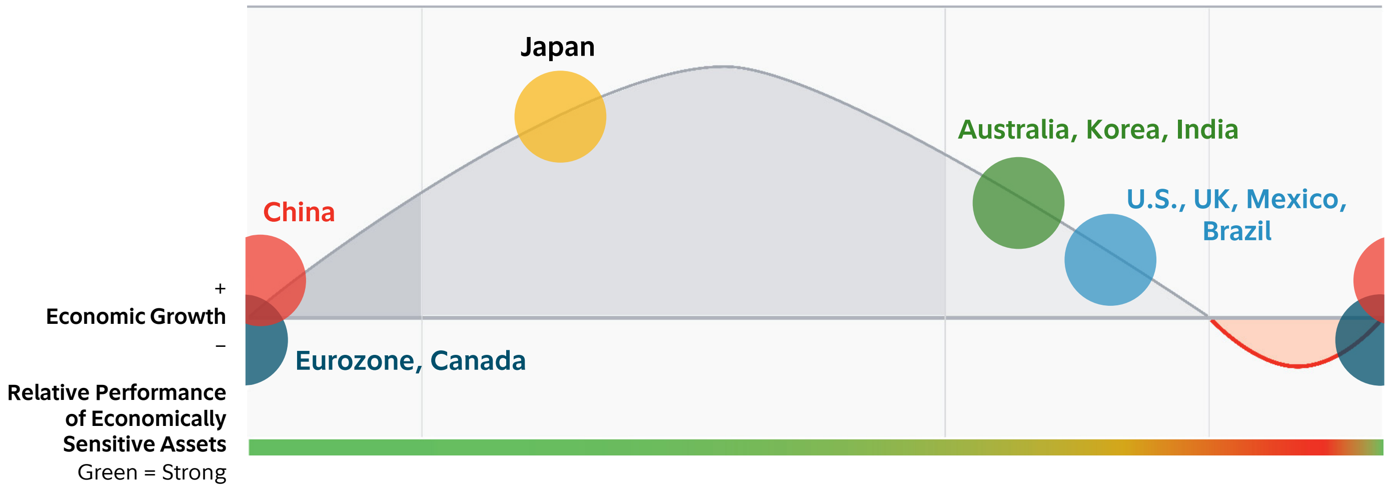
Asset allocation outlook

- Sticky inflation and policy uncertainty are the largest risks to the outlook.
- Prospects for a continued weakening in the U.S. dollar supports diversification into foreign assets by U.S. investors.
- Cyclically adjusted price-to-earnings ratios for non-U.S. stock markets appear relatively attractive vs. U.S. valuations.
- Diversification in fixed income assets remains attractive, as yields suggest valuations are roughly in line with long-term averages and better than the past decade.

Business Cycle Framework

The business cycle, which is the pattern of cyclical fluctuations in an economy over a few years, can influence asset returns over an intermediate-term horizon. Cyclical allocation tilts are only one investment tool, and any adjustments should be considered within the context of long-term portfolio construction principles and strategic asset allocation positioning.

Cycle Phases	EARLY	MID	LATE	RECESSION
	• Activity rebounds (GDP, IP, employment) • Credit begins to grow • Profits grow rapidly • Policy still stimulative • Inventories low; sales improve	• Growth peaking • Credit growth strong • Profit growth peaks • Policy neutral • Inventories, sales grow; equilibrium reached	• Growth moderating • Credit tightens • Earnings under pressure • Policy contractionary • Inventories grow, sales growth falls	• Falling activity • Credit dries up • Profits decline • Policy eases • Inventories, sales fall



The diagram above is a hypothetical illustration of the business cycle, the pattern of cyclical fluctuations in an economy over a few years that can influence asset returns over an intermediate-term horizon. There is not always a chronological, linear progression among the phases of the business cycle, and there have been cycles when the economy has skipped a phase or retraced an earlier one. A growth recession is a significant decline in activity relative to a country's long-term economic potential. Source: Fidelity Investments (AART), as of 6/30/25.

Fidelity INVESTMENTS®

1082603.6.0 1.9921148.100