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

Q1 2009: Sector Snapshot

This article summarizes some key factors that influenced returns of the major U.S. equity market sectors during the first quarter of 2009.

Information Technology + 4.3%

- Tech stocks rebounded from one of the sector's worst years on record in 2008, as investors saw value in beaten down stocks of companies with strong balance sheets, strong free cash flow and reasonable growth potential.
- The stocks of companies seen as early cyclicals—those that tend to perform well in the early stages of an economic recovery, such as semiconductor-related manufacturers (+6.7%)—performed well.
- Merger and acquisition speculation in the computer & peripherals industry (+8.5%) also contributed to the sector's solid Q1 performance.

Materials -2.0%

- The economic sensitivity of most industries within this sector provided a rollercoaster ride reflecting the "tale of two markets" seen before and after the March 9 inflection point.
- The stabilization and/or rebound in the prices of gold (+5%) and copper (+38%) provided a favorable backdrop for producers of these metals.[i]
- In the chemicals industry group, stable pricing patterns and greater appreciation of high-quality companies offering solid dividend yields helped leading industrial gas producers; acquisition activity boosted some specialty chemical makers; and the stabilization of some agricultural commodity prices, combined with favorable farmer income levels and acreage growth provided a positive backdrop for agribusiness providers.
- Stocks in some early cyclical industries, such as containers & packaging (-22.6%), paper & forest products (-17.5%), and construction materials (-35.6%), rebounded late in the quarter but not enough to offset earlier losses.

KEY TAKEAWAYS

- **Nine out of 10 major equity market sectors declined during the quarter amid one of the worst economic recessions in decades and an 11% decline in the broader stock market.**
- **March 9 proved to be an inflection point: Prior to this date, every sector suffered a double-digit decline; thereafter, all 10 sectors rallied 9% or more as low valuations, better-than-expected economic data and monetary policy actions helped motivate investors to rotate back into economically sensitive sectors.**
- **For the most part, sectors that performed the worst during the first six weeks of Q1 (e.g. financials, industrials, consumer discretionary and materials) experienced the biggest snapbacks in the final three weeks of the period—the largest and quickest advance in 70 years.**

Telecommunication Services -7.1%

- Amid the challenging economic climate, telecom companies held up better than the broader market (-11.0%) due to their large recurring revenue streams based on services increasingly viewed as consumer staples (less discretionary), and the companies' relatively attractive dividend yields.
- After several previous quarters of sub-par returns, pure-play wireless providers (+32.1%) dramatically outperformed, as investors cheered cost-cutting and positive subscriber trends.

Health Care -8.0%

- Corporate consolidation was a major theme during the quarter, as announced mergers for several pharmaceutical companies (-7.7%) provided some support for stock prices.
- The stocks of companies in the life sciences & tools industry (+9.4%) benefited from the U.S. government's massive stimulus legislation, including $10 billion in spending earmarked for bio-medical research.[ii]

- The unknown impact of the U.S. government's proposed initiatives for overhauling health care coverage for Americans continued to provide a cloud of uncertainty over the sector, particularly for health care providers & services (-11.9%).

Consumer Discretionary -8.0%

- Rising unemployment, falling home prices and declining consumer purchasing trends set a particularly difficult economic backdrop for consumer discretionary stocks.
- Media stocks (-17.2%) tumbled due in large part to declining print advertising revenue and bankruptcies or statements of fiscal hardship by a number of major city newspapers.
- Amid mixed sales reports, retailers of all sorts (online, brick-and-mortar chains, etc.) generally had positive performance as investors saw many early cyclical companies at valuation troughs, and as beneficiaries of a future economic recovery.
- Hotel, restaurant and leisure stocks (-10.8%) underperformed as corporations reduced travel and occupancy came under pressure.

Consumer Staples -10.5%

- This sector's classic defensive-oriented characteristics were instrumental in its roughly in-line performance with the broader market; not surprisingly, staples stocks outperformed the broader market's decline during the first two months of the quarter, and then lagged thereafter amid investors' growing appetite for risk.

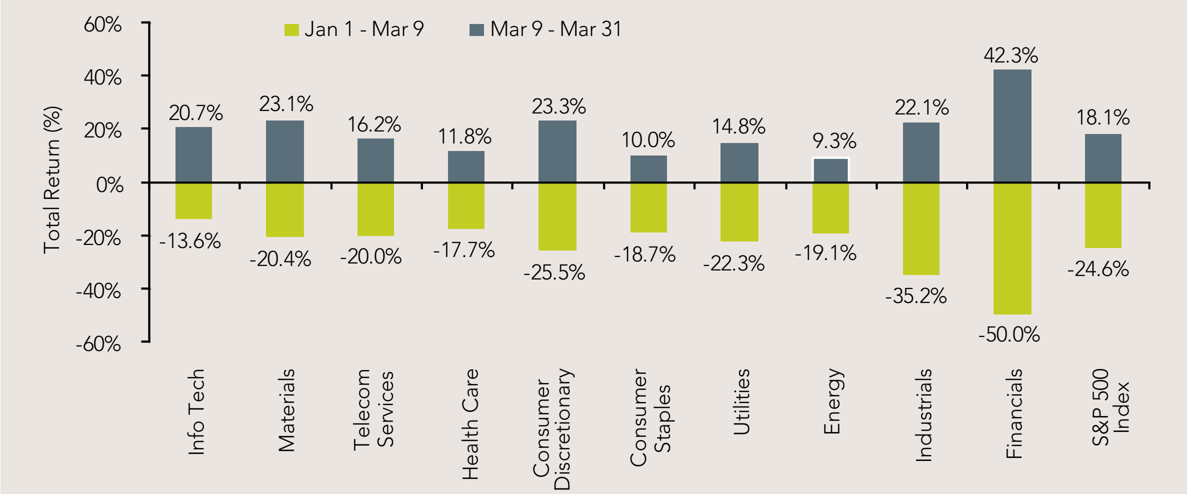
Utilities -10.8%

- Utility company stocks also tend to be viewed as more stable growth, defensive holdings, and as such the sector slightly outperformed the broader market earlier in the period but trailed other higher-beta sectors later in the quarter.
- Growing momentum on Congressional proposals for cap-and-trade legislation—policy that identifies and sets caps on greenhouse-gas-emitting entities and creates economic pressures on companies to become more environmentally friendly—was viewed as being a potential headwind to profitability for some utility companies.

Energy -11.6%

- Rising crude oil prices (+11.3%) helped energy equipment & services (-4.7%) hold up better than large, integrated oil and gas providers (-12.5%), as a flight to higher-quality companies reversed course from the previous quarter.[iii]
- Equipment & services companies with solid balance sheets and newer, more efficient equipment (i.e. rigs, boats, etc.) were leaders.

EXHIBIT 1: There was a vast difference between the sector performance seen before and after March 9; for the most part, the sectors that performed the worst in the first nine weeks of the quarter—financials, industrials, consumer discretionary, materials—experienced the biggest snapbacks during the final three weeks.



	Info Tech	Materials	Telecom Services	Health Care	Consumer Discretionary	Consumer Staples	Utilities	Energy	Industrials	Financials	S&P 500 Index
Q1 Return	4.3%	- 2.0%	- 7.1%	- 8.0%	- 8.1%	-10.5%	-10.8%	-11.6%	- 20.9%	- 28.8%	- 11.0%

Source: FMRCo (MARE) as of 3/31/09. Past performance is no guarantee of future results. 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. Please refer to the appendix for important index information.

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- Declining natural gas prices and elevated inventory levels hurt natural gas producers.

Industrials -20.9%

- The synchronized global economic slowdown, a steep decline in global industrial production and difficult credit-market conditions put pressure on many industrial manufacturers.
- Concerns about the potential for diminished spending under a new presidential administration and Congress weighed on aerospace and defense stocks (-16.3%).
- Higher borrowing rates and a global slowdown in construction activity hurt the stocks of heavy machinery providers (-18.5%), while industrial conglomerates (-30.6%) generally suffered from the economic slowdown.

Financials -28.8%

- The carnage among large commercial banks (-46.0%) and diversified financial institutions (-31.2%) considered to be "too big to fail" was severe, as concerns mounted over bank regulator "stress tests," and the real possibility of additional capital requirements that could further dilute the value of existing shares.
- Other industries, such as consumer finance (-38.7%), insurance (-29.3%), and real estate investment trusts (-35.7%) also were decimated by either concerns regarding the availability of credit or the potential for further write-downs of credit-related securities.
- However, financials recovered some losses late in the quarter as some banks reported stabilizing profits, and the government announced new initiatives to assist many financial institutions with the removal of toxic assets from their balance sheets.

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Past performance is no guarantee of future results.

Investing involves risks. Sector investments may be more volatile and riskier than investments in other types of securities. Investment decisions should be based on an individuals own goals, time horizon and tolerance for risk.

[i] Gold futures 6-month contract settlement price; Copper grade A, 3-month forward price used to calculate Q1 price changes. Source: Wall Street Journal, London Metal Exchange, Haver Analytics, FMRCo (MARE) as of 3/31/09.
[ii] Source: Wall Street Journal, FMRCo (MARE) as of 2/19/09.
[iii] Light Sweet Crude Oil; WTI, Cushing, OK 1st expiring futures contract settlement price used to calculate Q1 price changes. Source: Wall Street Journal, Haver Analytics, FMRCo (MARE) as of 3/31/09.

All returns for S&P 500 Global Industry Classification Standard (GICS)® sectors and industries are as of 3/31/2009, unless otherwise noted.

Sector and Industry Performance (Q1 2009 and 1-Year)*

Weight	Sector / Industry	Q1 Return	1-Year Return
12.80	Consumer Staples	-10.5	-22.6
3.52	Food & Staples Retailing	-5.8	-17.2
2.80	Household Products	-20.4	-28.6
2.75	Beverages	-4.8	-18.7
1.84	Food Products	-11.0	-22.8
1.74	Tobacco	-8.9	-23.3
0.16	Personal Products	-19.5	-48.8
3.33	Materials	-2.0	-45.1
2.02	Chemicals	3.3	-37.1
0.90	Metals & Mining	-1.0	-55.9
0.18	Containers & Packaging	-22.6	-34.8
0.16	Paper & Forest Products	-17.5	-61.7
0.07	Construction Materials	-35.6	-30.9
9.71	Industrials	-20.9	-50.5
2.73	Aerospace & Defense	-16.3	-41.4
2.06	Industrial Conglomerates	-30.6	-66.2
1.41	Machinery	-18.5	-52.4
1.11	Air Freight & Logistics	-15.5	-34.9
0.89	Road & Rail	-19.8	-38.8
0.55	Commercial Services & Supplies	-19.1	-34.3
0.42	Electrical Equipment	-21.0	-44.2
0.16	Construction & Engineering	-21.4	-49.3
0.16	Professional Services	-9.6	-38.4
0.12	Trading Companies & Distributors	-8.7	-17.6
0.07	Airlines	-26.5	-48.9
0.04	Building Products	-36.0	-60.4
8.77	Consumer Discretionary	-8.1	-35.3
2.42	Media	-17.2	-44.6
2.11	Specialty Retail	1.8	-20.6
1.55	Hotels Restaurants & Leisure	-10.8	-27.9
0.85	Multiline Retail	7.2	-30.3
0.45	Textiles Apparel & Luxury Goods	-8.5	-34.6
0.37	Internet & Catalog Retail	40.1	-7.4
0.35	Household Durables	-20.5	-53.5
0.21	Diversified Consumer Services	-8.2	28.1
0.15	Automobiles	-6.7	-68.2
0.12	Auto Components	-28.5	-66.3
0.12	Leisure Equipment & Products	-25.5	-44.5
0.07	Distributors	-20.0	-22.5
13.02	Energy	-11.6	-37.9
11.46	Oil Gas & Consumable Fuels	-12.5	-32.4
1.56	Energy Equipment & Services	-4.7	-58.5

Weight	Sector / Industry	Q1 Return	1-Year Return
4.32	Utilities	-10.8	-29.7
2.47	Electric Utilities	-13.3	-30.6
1.57	Multi-Utilities	-5.6	-16.8
0.15	Gas Utilities	-7.4	-39.0
0.13	Independent Power Producers & Energy Traders	-23.7	-72.4
15.28	Health Care	-8.0	-19.7
8.24	Pharmaceuticals	-7.7	-14.5
2.34	Health Care Equipment & Supplies	-4.5	-31.2
2.17	Biotechnology	-11.3	-6.8
2.09	Health Care Providers & Services	-11.9	-31.1
0.42	Life Sciences Tools & Services	9.4	-27.8
0.03	Health Care Technology	-17.6	-40.2
3.98	Telecommunication Services	-7.1	-25.2
3.66	Diversified Telecomm. Services	-9.5	-24.1
0.32	Wireless Telecomm. Services	32.1	-35.9
10.81	Financials	-28.8	-63.0
2.81	Diversified Financial Services	-31.2	-65.4
2.57	Capital Markets	6.1	-49.1
2.14	Insurance	-29.3	-65.2
1.91	Commercial Banks	-46.0	-62.2
0.80	Real Estate Investment Trusts	-35.7	-63.3
0.38	Consumer Finance	-38.7	-68.8
0.18	Thrifts & Mortgage Finance	-14.1	-87.4
0.01	Real Estate Mgmt. & Development	-6.7	-81.4
17.98	Information Technology	4.3	-30.1
5.17	Computers & Peripherals	8.5	-25.9
4.05	Software	-1.0	-27.9
2.99	Communications Equipment	5.7	-29.1
2.54	Semiconductors & Semi. Equip	6.7	-33.9
1.76	Internet Software & Services	8.7	-35.9
1.10	IT Services	0.4	-24.6
0.31	Electronic Equipment Instruments & Components	-13.5	-54.9
0.06	Office Electronics	-42.4	-69.0
100.00	**Total**	**-11.0**	**-38.1**

*All returns are cumulative for S&P 500 GICS sectors and industries in stated time periods. Weight shows ending sector/industry weighting within the S&P 500 Index during Q1 2009.

Source: FactSet, FMRCo (MARE) as of 3/31/2009.