

## Target date strategies: Navigating uncertainty with a long-term view

Fidelity's target date portfolio managers share what is top of mind for the investment team and our clients

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As the second quarter of 2026 gets underway, investors are navigating heightened uncertainty stemming from geopolitical tensions, inflation, and monetary policy. As multi-asset investment managers, our edge is understanding how asset class prices react to shifting information and expectations, while managing opportunities and risks on behalf of target date investors.

In addition, we always keep our ear to the ground for questions and concerns from our clients. As a result, we are introducing this new quarterly series of insights on topics that are front-of-mind for our clients and our investment team. In this first installment, we will address recent questions on the current market environment, artificial intelligence (AI), U.S. and non-U.S. equity diversification, and precious metals.

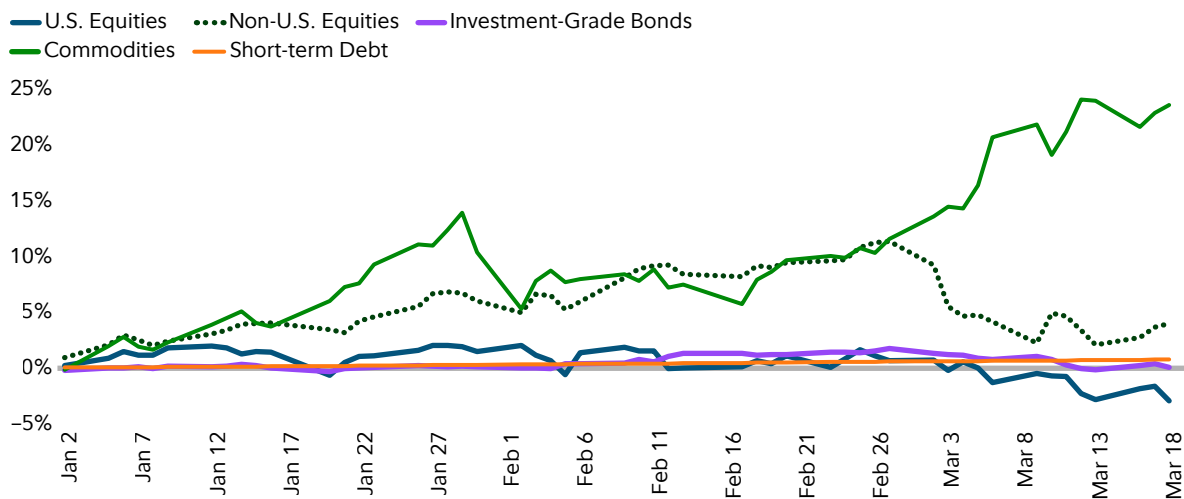
### How are you responding to rising levels of volatility in capital markets?

Our primary tool for managing uncertainty is the strategic asset allocation of the target date strategies. This long-term mix of assets is designed to keep investors on track to achieve their retirement goals. In our strategic allocation, we plan for a range of market environments by diversifying across a broad set of asset classes with unique payoffs. That helps ensure the portfolios are well-positioned to navigate shifting regimes.

Recently, we have seen a surge in commodity prices, divergence in performance between U.S. and non-U.S. equities, fixed income yields edging higher, and cash providing stability (see Exhibit 1). While geopolitical events are top-of-mind, a diversified strategic asset allocation can provide resilience during periods of volatility.

### Exhibit 1: U.S. equities lag, commodities lead in early 2026

% Asset class returns, January 1 to March 18, 2026



**Past performance is no guarantee of future results.** U.S. equities: S&P 500 Index. Non-U.S. equities: MSCI ACWI (All Country World Index) ex USA Index. Investment-grade bonds: Bloomberg U.S. Aggregate Bond Index; Commodities: Bloomberg Commodity Index. Short-term debt: Bloomberg U.S. Treasury Bills: 1–3 Months Index. Source: Bloomberg Finance L.P., as of 3/18/26.

In our active and blend strategies, volatility is creating active management opportunities where investors may be overly optimistic or pessimistic. Our base case is one of economic resiliency in the U.S., with U.S. corporate fundamentals remaining strong and consumer buying power remaining solid. We also acknowledge that the range of potential outcomes may broaden as investors seek to assess how long the Iran conflict will last and its potential implications for oil markets, economic growth, and inflation. Against this backdrop, relative to benchmarks we maintain an equity overweight with a preference for non-U.S. assets.

### After a strong run in 2025 and early 2026, the prices of AI stocks have recently been flat to lower. How are you thinking about AI and its impact on the markets?

The boom in AI-related spending is impacting nearly every U.S. sector. The dominance of large tech companies has led to concerns of an “AI bubble” in the market. Current AI dynamics tick some bubble-like indicators, including dramatic growth in capital expenditures (Capex), increasing use of off-balance-sheet financing to fund investments, and enthusiasm about AI and its myriad applications. No two cycles are the same, however, and this one differs from previous bubbles in important ways. For example, compared with the internet bubble in the late 1990s, the companies at the center of the AI trade are well-established, profitable, and more reasonably valued.

There is little doubt that AI will be a transformative technology with significant effects on society, corporations, and their cash flows. Investors will increasingly focus on whether the investment in AI will generate a return needed to justify the expectations that are embedded in asset prices. We are drawing on research from our equity and fixed income colleagues, who have a deep understanding of the companies and technologies

behind the AI boom. Our analysis shows that earnings growth among the leading AI players is likely to remain strong over the next few years, outpacing the broader market.

We also view AI as a significant and persistent technological innovation with the potential to create macroeconomic shocks. A significant risk is how AI-driven job displacement could affect societies and global politics. Our research suggests that new technologies usually take time to spread and reveal their full impact. Currently, investors are highly focused on energy prices and the conflict in the Middle East. But the larger story is likely the steady rollout of AI into everyday corporate work, and how it will reshape jobs, productivity, and long-term inflation.

### What is the appropriate strategic split between U.S. and non-U.S. stocks in a target date fund?

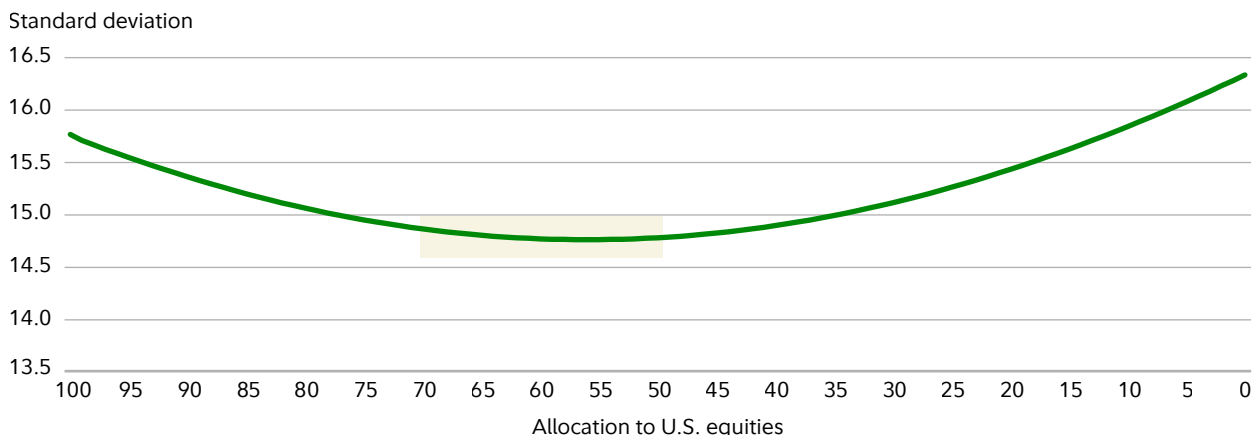
Based on our long-term research into capital markets, diversification, and the needs and sensitivities of target date participants, we believe an appropriate strategic equity allocation consists of 60% U.S. equities and 40% non-U.S. equities. This allocation is designed to balance the diversification benefits of global equities with the specific needs of U.S.-based investors in target date portfolios.

The U.S. equity market is the largest and most liquid in the world and U.S. corporations have demonstrated higher levels of growth, innovation, and governance. U.S. investors have a greater familiarity with and preference for domestic equities—reflecting the common home-country bias—and they typically have liabilities dominated in dollars. Non-U.S. equity assets provide exposure to different economic cycles, levels of growth and inflation, political systems, and sectors. For example, about 40% of the U.S. equity market is comprised of information technology and communication services companies, while non-U.S. markets have more exposure to financials and industrials. These factors contribute to the dispersion in equity returns across different regions of the world, helping investors navigate shifting capital markets.

When determining the level of non-U.S. equity exposure for investors, we consider the potential diversification benefits across a range of allocations. As U.S. equities are reduced and non-U.S. equities increased, the diversification benefit—measured by total volatility—remains similar when U.S. exposure is between 50% and 70% (see Exhibit 2). The benefits of diversification begin to diminish when U.S. equities are less than 50%.

### Exhibit 2: A range of U.S. and non-U.S. equity mixes that can provide diversification

Annualized volatility across different U.S./non-U.S. equity allocations, 1970–2025



**Past performance is no guarantee of future results.** Analysis is based on returns of the Dow Jones U.S. Total Stock Market Index and the MSCI ACWI ex USA Index from 1970–2025. Source: Fidelity Investments, 12/31/2025.

An alternative reference point for strategic asset allocation decisions is global equity market capitalization, which represents how the public equity market is split across regions. Historically, U.S. equities have made up approximately 50% of the total market cap as measured by the MSCI ACWI (All Country World Index) Index. Over time, the range fluctuated between 29% and 68%. Currently, the U.S. equity market weight is approximately 62%, driven by strong performance in recent years. But leadership between U.S. and non-U.S. equity markets tends to rotate over time. As a result, we follow our long-term investment process rather than aligning our strategic exposure to the global market cap as it evolves.

### Gold and precious metals performed well last year, and this year’s price action has been more variable. How are you thinking about this asset class from an asset-allocation perspective?

Precious metals are often viewed as a store of value, a hedge against inflation, a way to manage geopolitical uncertainty, and a diversifier relative to other financial assets. Each of these factors was on display over the past year as precious metals—measured by gold and silver—appreciated by more than 45% and 100%, respectively.<sup>2</sup> Prices changed as investors responded to various types of information:

- U.S. trade policy disrupted the global trade system, which is transacted in dollars.
- Investors questioned the safe-haven nature of U.S. Treasuries and the dollar, concurrent with these assets failing to provide their typical ballast to equities during market volatility in April 2025.
- Foreign investors and institutions looking to diversify their U.S. exposure increased allocations to gold.
- Foreign central banks accumulated gold reserves to diversify their holdings as shown in Exhibit 3. For the first time in 30 years, they held a greater share of gold in their international reserves than Treasuries.
- As the Federal Reserve signaled a willingness to cut interest rates while inflation remained above target, investors reassessed the central bank’s policy stance and independence, coinciding with a period of dollar weakness.
- The stock-bond correlation remained positive. With bonds perceived as providing less future diversification relative to equities, precious metals may be increasingly viewed as an alternative source of diversification.

### Exhibit 3: Global central banks’ holdings of gold have trended upward in recent years

% of foreign official gold holdings as a share of total foreign official reserves



Source: International Monetary Fund (International Financial Statistics), Macrobond, as of 2/1/2026.

We manage the risk associated with these factors through strategic and active positioning in our target date strategies. In our strategic allocations, commodities exposure (with approximately 20% in precious metals) has improved diversification, especially for investors who lean heavily on bond allocations. International equities also help provide balance when investors question the dollar's role as a store of value and a hedge against uncertainty. In portfolios with active asset allocation flexibility, we hold an overweight position in both asset classes—commodities and international equities—relative to our composite benchmarks.

## Endnotes

<sup>1</sup> MSCI Inc. MSCI ACWI Index (USD), as of Feb. 27, 2026. <https://www.msci.com/documents/10199/8d97d244-4685-4200-a24c-3e2942e3adeb>

<sup>2</sup> Returns of gold and silver over the past one year ending March 23, 2026. Source: Bloomberg Finance L.P.

## Definitions

**Dow Jones U.S. Total Stock Market Index** is a float-adjusted market capitalization-weighted index of all equity securities of US headquartered companies with readily available price data.

**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 US equity performance.

**MSCI ACWI (All Country World Index) Index** is a market capitalization-weighted index that is designed to measure the investable equity market performance for global investors of developed and emerging markets.

**MSCI ACWI (All Country World Index) USA Index** is a market capitalization-weighted index designed to measure the performance of the US investable large and mid-cap equity market for global investors.

**MSCI ACWI (All Country World Index) ex USA Index** is a market capitalization-weighted index designed to measure the investable equity market performance for global investors of large, mid, and small cap stocks in developed and emerging markets, excluding the United States.

**Bloomberg U.S. Aggregate Bond Index** is a broad-based flagship benchmark that measures the investment-grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, mortgage-backed securities (agency fixed-rate pass-throughs), asset-backed securities, and collateralized mortgage-backed securities (agency and non-agency).

**Bloomberg Commodity Index** measures the performance of the commodities market. It consists of exchange-traded futures contracts on physical commodities that are weighted to account for the economic significance and market liquidity of each commodity.

**The Bloomberg U.S. Treasury Bills: 1-3 Months Index** tracks the market for treasury bills issued by the U.S. government with time to maturity between 1 and 3 months.

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*Thought Leadership Vice President Shanthy Nambiar provided editorial direction for this article.*



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