



STRONG EARNINGS GROWTH WILL CONTINUE TO DRIVE EUROPEAN MARKETS

- **The German consumer will take an active role in the next phase of European growth, says Fidelity's McCarron**

London, 15 October 2007 – Following four years of strong returns, when the European market has outperformed the other developed markets of the US, UK and Japan*, the question now being asked is whether this trend can continue. Speaking at a conference for advisers recently, **Tim McCarron, manager of the Fidelity European Fund** addressed the topic.

“Since 2003, equity markets have known many top-down fears – about the oil price, terrorism, a slow down in China, hurricanes, housing bubbles and stagflation, to name a few – and have effectively been climbing a wall of worry. Strong earnings growth has continued to drive European markets however and while earnings are slowing, they are still growing. In fact, there were more upgrades than downgrades in the last quarter. The broad outlook for investing in Europe remains positive. Looking at the equity bond yield, European equities also remain attractively valued.

“Inflation should remain low given the European Central Bank’s tight focus on inflation and proactive stance, the effects of globalisation, less direct influence from labour markets and the low cost of east-European manufacturing and labour. History tells us that periods of low inflation rates, such as the one Europe is currently witnessing, can support higher company valuations than is currently the case which in turn suggests that markets could continue their upward trend.

“To my mind, Germany, the largest economy in the region, is key. Germany’s continued recovery bodes well and a peak in unemployment some two years after a similar peak in the US, suggest that the German, and indeed European, consumer could take an active role in the next phase of Europe’s economic growth.”



The latest worry to cause volatility in the market was the sub-prime issues in the US and subsequently markets have been dogged by the fear of contagion. “The fund did not hold any companies that had direct sub-prime exposure,” **concluded Mr McCarron**, “although some diversified financial holdings were dragged down as the market fretted over possible contagion. In fact, the fund was overweight retail banks that had strong free cash flow, were backed by large deposits and lent to the real economy. The fund was also overweight cash generative diversified financials such as Deutsche Bourse that are geared towards structural growth and Greek banks that have exposure to emerging markets which have benefited from strong global growth.”

These positions meant that performance of the fund was hit in the short term and August was a difficult month. However, a return of 6.05% in September** proved the benefits of sticking to high conviction ideas in such market conditions.

The FIF European Fund aims to achieve long term capital growth from a portfolio primarily made up of the shares of continental European companies. It is managed with a value bias, with one or more of the following characteristics typically found in companies selected for investment: Undervalued stocks, growth at a reasonable price and turnaround situations.

Performance of FIF European to end September '07**

Period	FIF European Fund	MSCI Europe ex UK	Relative	Quartile
Since tenure (31/12/2002)	169.1	139.7	29.4	1st
3 Years	83.2	82.6	0.6	2 nd
1 Year	18.1	19.5	-1.4	2 nd
Year to date	11.2	11.7	-0.5	2 nd
3 Months to Sept	0.8	0.8	0.0	2 nd

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Notes to editors:

*Source: DataStream to 23/08/07. Total return, USD.

**Source: Fidelity and Morningstar Workstation as at 30 Sept 07. Basis: bid-bid with net income reinvested. Benchmark – MSCI Europe ex UK. Tenure performance calculated from 02.01.03.

***Source: Fidelity as at 30.06.07

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