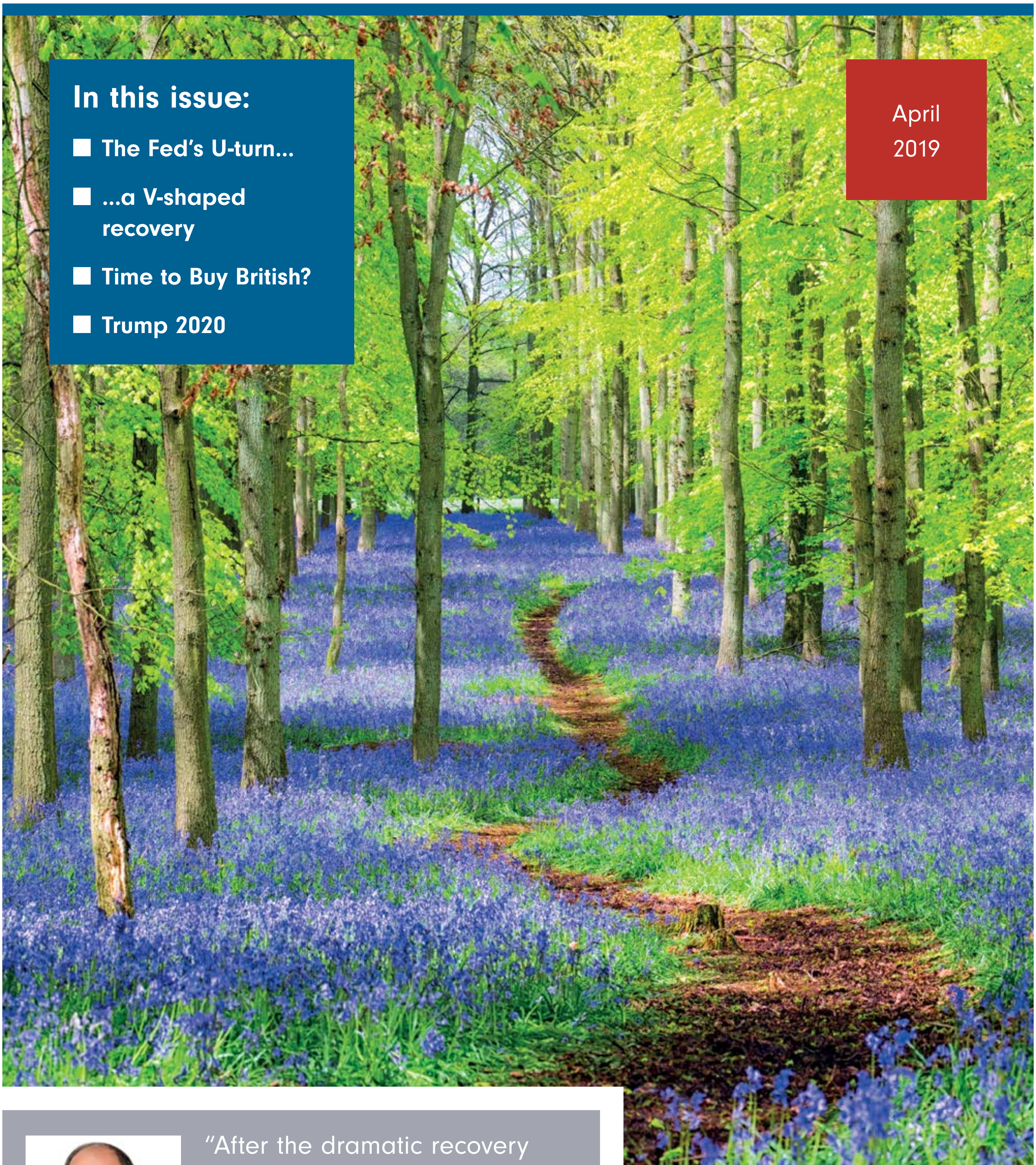
INVESTMENT OUTLOOK

Fidelity Personal Investing's market and investment view



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- The Fed's U-turn...
- ...a V-shaped recovery
- Time to Buy British?
- Trump 2020

April 2019

"After the dramatic recovery in markets since the New Year, caution and balance are the watchwords"

By Tom Stevenson,
Investment Director, Personal Investing

Fidelity™ INTERNATIONAL

Outlook at a glance

Please note that this information is not a personal recommendation for any particular investment. If you are unsure about the suitability of an investment, you should speak to an authorised financial adviser.

Asset classes	Current View	3 Month Change	
Shares	⊟	▼	Shares have reversed much of the fourth quarter slide on interest rate hopes. Earnings must deliver to hold onto the gains.
Bonds	⊟	▶	Unusually, bonds and shares have risen together this quarter. Things will have to get quite a bit worse to justify yields at these low levels.
Property	☒	▶	There is a mismatch between the slowing European economies and demand for commercial real estate. The yields don't repay the risks.
Commodities	⊟	▼	The Trump re-election campaign will demand a lower oil price. Saudi Arabia is not an equal partner in this relationship and will likely oblige.
Cash	☑	▶	After the rally in risk assets, cash once more looks like playing a useful role in a well-balanced portfolio. Keep some powder dry.
Regions	**Current View**	**3 Month Change**	
US	⊟	▼	After the New Year rally, the risk/reward balance is less good than it looked at Christmas. A lot hangs on the Fed staying loose.
UK	☑	▶	At the time of writing, Brexit remains up in the air. The uncertainty is well priced-in, however, and the UK is too cheap. Still attractive.
Europe	☑	▲	Europe looks very interesting from a contrarian point of view. Compared with global shares and fixed income alternatives, the region is cheap.
Asia Pacific ex-Japan	⊟	▼	The scale of the rally in China this year makes it hard to chase shares further for now. A resolution to the trade tensions is needed.
Japan	☑	▶	Still cheap, although the worsening outlook makes Japan seem less of an obvious buy than three months ago. Good long-term contrarian play.

Current View: ☑ Positive ⊟ Neutral ☒ Negative

3 Month Change (since the last Investment Outlook): ▲ Upgrade ▶ Unchanged ▼ Downgrade

For more market data including full 5 year performance figures see page 15 ▶

Q1 in three charts

V-shaped recovery

With the benefit of hindsight, it was a generous Christmas present. The chart here shows the performance of the MSCI World index, expressed in US dollars, a benchmark for all the shares listed around the world. It traces a pronounced V-shaped recovery from the widespread angst pervading markets in the fourth quarter of 2018 when it seemed that the Federal Reserve was intent on tightening policy in the face of a nascent economic slowdown. The precise bottom of the V was December 25. When people talk about efficient markets, this kind of chart is the perfect riposte. Markets overshoot in both directions. Catching the tops and bottoms is impossible, but with experience you can get a feel for when investors have become excessively pessimistic. That is certainly how it felt during the year-end holiday season, even before Mr Powell's dovish pivot rekindled animal spirits in the New Year.

Source: Refinitiv, as at 31.3.19, in USD terms with income reinvested.

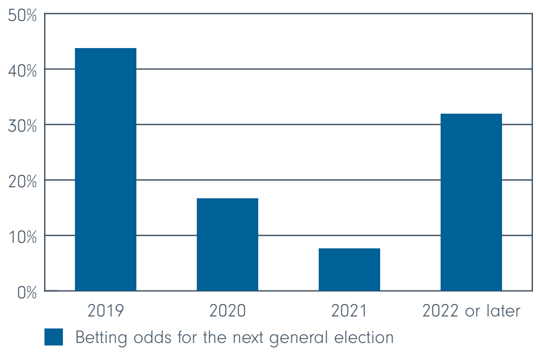
Source: Refinitiv/Fathom Consulting, as at 28.3.19

Government bonds: the ultimate safe haven

There were two ways to view the change of heart by the Federal Reserve during the first quarter of 2019. Investors could have seen the new dovish tilt by the US central bank as a positive for markets – lower borrowing costs are generally good news for both businesses and consumers – or they could have worried that the Fed knew something that the rest of us did not. So far stock market investors have adopted the first interpretation while bond investors (typically a more pessimistic bunch) have opted for the glass-half-empty version. It remains to be seen which group is right, but the slide in bond yields that has accompanied fixed income investors' flight to safety is remarkable. It suggests that the Fed's tightening programme is done and dusted, with the next move in interest rates lower, probably later this year. Who would have thought that six months ago?

Another election? Really?

Writing anything about Brexit is fraught with danger, especially if there will be a gap between putting (electronic) pen to paper and the actual publication of those words. As I am starting to write this Outlook on 29 March (the day when Britain was due to leave the EU but didn't) and will be launching it on 9 April, three days before the first of the EU's two proposed departure dates, the risk of being overtaken by events is particularly high. However, I can't resist including this interesting chart from Fathom Consulting. It shows the binary nature of the current Brexit shambles. Either things go according to one of the many possible plans still on the table at the time of writing, and the next election is held as scheduled in 2022, or the May Government hits the buffers and a third General Election in four years is seen as the only way out of the impasse. Oh, Mr Cameron, what did you start?



Source: Refinitiv, as at 28.3.19

Past performance is not a reliable indicator of future returns. When investing in overseas markets, changes in currency exchange rates may affect the value of an investment. There is a risk that the issuers of bonds may not be able to repay the money they have borrowed or make interest payments. When interest rates rise, bonds may fall in value. Rising interest rates may cause the value of your investment to fall. For full 5 year performance figures please see page 15.

Acknowledgements

I would like to thank the many knowledgeable and experienced people within the wider Fidelity organisation who have helped me develop the ideas in this Investment Outlook. Although the views expressed here do not represent the shared opinion, or house view, of Fidelity's investment team, the combined expertise of over 380 investment professionals in 13 countries is a very significant resource on which I have been able to lean. In particular, I would like to thank Gary Monaghan, Investment Director in Hong Kong, Jeremy Osborne, Investment Director in Tokyo, Leigh Himsworth, UK Portfolio Manager, Neil Cable, Head of Real Estate, Andrea Ianelli, Investment Director for Fixed Income, Kasia Kiladis, Investment Director, US, Natalie Briggs, Investment Director, Europe, Bill McQuaker, Portfolio Manager, and Ayesha Akbar, Portfolio Manager.

Analyst survey: the end of optimism

Each year at this time, we take the pulse of the global economy and markets with a survey of Fidelity's research analysts. This time, 165 took part, providing an invaluable view from the coal-face that the more usual top-down analyses fail to capture. Benefiting from around 16,000 company meetings a year, the Fidelity investment team is well-placed to understand the hopes and fears in boardrooms all over the world.

We asked the analysts a range of questions – around 60 – but they boiled down to one key uncertainty: are we heading into a recession? The short answer is no. But we are clearly closer to the end of the cycle than we were a year ago when businesses were notably more confident than they are today.

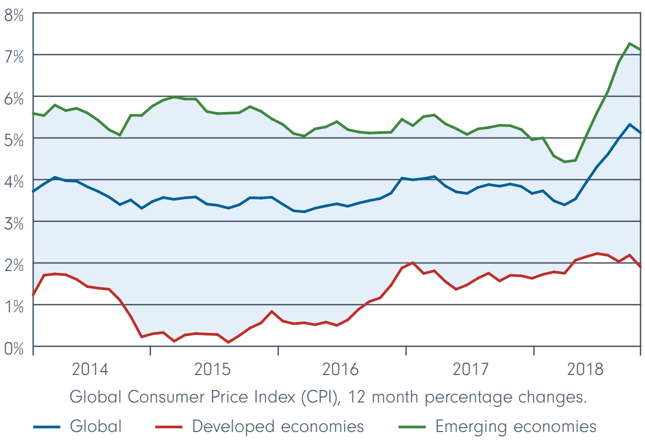
The difference in sentiment is pronounced. A year ago, just 13% of our analysts reported their sectors were in a slowdown or recession. 12 months on, that proportion has risen to a third. At the beginning of 2018, 35% of analysts said the companies they followed were expanding. Today, just a fifth are so optimistic.

The key drivers of this increased pessimism are weakening consumer confidence and the rising costs of doing business. There's been a big reduction in the number of analysts expecting companies to deliver better returns on the capital they employ in their businesses. This is notable in China – dropping from 43% to just 7% – and America – down from 50% to 20%.

A couple of striking examples of reduced consumer optimism have emerged. Analysts say the Chinese car market, which is the world's biggest at 25 million vehicles sold a year, 'cracked' in the last four months of 2018. Luxury goods, too, are in retreat. High double-digit sales growth is expected to fall close to zero, thanks in large part to more caution from Chinese consumers who account for a third of the sector's sales.

As for rising costs, as the chart shows, inflation may not be a problem in the developed world, but it is increasing in emerging countries. Funding costs are also on the rise, although it's worth noting that the survey was conducted before the Fed's change of tune.

Inflation rising in emerging economies



Source: Refinitiv/Fathom Consulting, as at 15.11.18

Past performance is not a reliable indicator of future returns.

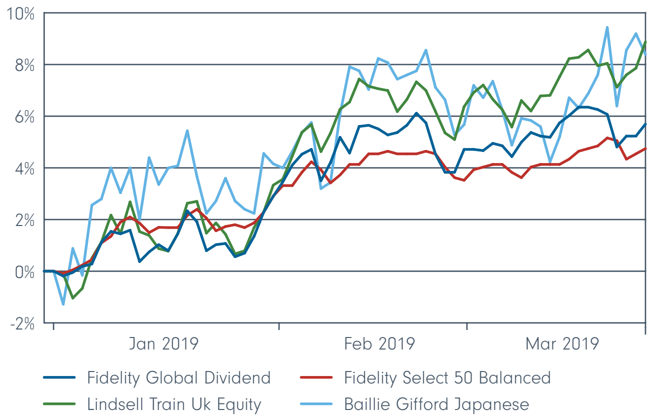
The fundamental driver of stock markets is corporate earnings growth and the outlook for this is cloudier than it was. The silver lining to that cloud, however, is that investors have already priced in some of these weaker prospects. That's a better place for investors to start from than last year's over-optimism.

Fund recommendations update

No-one should pay much attention to the performance of an investment over an insignificant period of time like the first three months of the year. As the old adage says, in the short-term markets are voting machines and only in the long-run can we view them as weighing machines that accurately reflect the true substance of an investment. Over short periods of time they are just a measure of investors' appetite for risk and, as we have discussed elsewhere, the past three months has been a positive one for markets.

Having made that clear, however, and for the sake of transparency, I want to give a short update on the performance in the year to date of 2019's fund recommendations. As the chart shows, it's been a reasonable start to the year for all four of them.

My 2019 fund recommendations



Source: Morningstar as at 31.03.19. Basis: bid to bid with income reinvested in GBP. Excludes initial charge.

Past performance is not a reliable indicator of future returns. When investing in overseas markets, changes in currency exchange rates may affect the value of your investment. For full 5 year performance figures please see p12-14.

I agonised over whether to recommend Nick Train's **Lindsell Train UK Equity Fund** or Alex Wright's **Fidelity Special Situations Fund**. I plumped for Train because of the prevailing uncertainty around Brexit and because it felt like the less risky option. In the early weeks of the year, that looked like the wrong call because Special Sits raced away, but three months in there's not a lot between the two funds.

Neck and neck with the Lindsell Train fund is the **Baillie Gifford Japanese Fund**. That reflects the sharp recovery in Japanese shares so far this year. I am a great admirer not just of this fund but of many that are managed by this Edinburgh-based manager. I believe this is a great way to play the undervalued Japanese market.

The two Fidelity funds are slightly lagging the other two recommendations but still delivering a more than acceptable return of around 5% in both cases. Both the **Fidelity Global Dividend Fund** and the **Fidelity Select 50 Balanced Fund** are defensive options, which continue to make sense in light of the late cycle markets we find ourselves in.

Look out for further updates. I'll review the recommendations in all future Outlooks.

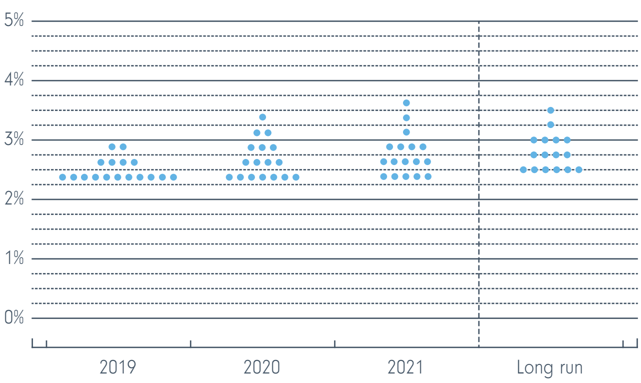
Three dominant themes: trade, interest rates, Brexit

The first quarter of 2019 has been dominated by three stories and I suspect that they will continue to make the weather in the second three months too.

The first is the ongoing trade negotiations between the US and China. These have settled down into a kind of shuttle diplomacy, with key figures criss-crossing the Pacific for alternate talks in Washington and Beijing. The key moment in the first quarter was Donald Trump's decision to postpone a more than doubling of tariffs from the proposed implementation date of March 1. That seems to have taken the pressure off China to comply with America's demands and could mean that talks drag on for months now. The key for China is not to lose face. It cannot be seen to have caved into US demands and America's negotiators look slow to understand this key cultural aspect to the talks.

The second important theme is related to the trade talks. The Federal Reserve's softer tone since January is a reflection of the global slowdown that trade tension has triggered. As the chart here shows, the rate-setters at the Federal Reserve are now much more cautious about raising rates than they were. The so-called dot plots indicate that interest rates are unlikely to rise much further from here. Indeed, there is a very real prospect of the next move in US rates being down not up. The Fed's flexibility will help support the stock market, but it can only go so far. If Donald Trump is to go into next year's Presidential election on the coat-tails of a strong economy and rising corporate profits he needs to strike a deal with China.

Federal Reserve: interest rates on hold



Source: Federal Reserve, March 2019

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Closer to home, the third key market theme needs no introduction. You are either enthralled by the drama in Westminster or thoroughly bored and probably a bit irritated by the ongoing Brexit saga. From a market perspective, the response has been surprisingly muted when you consider that we are experiencing a major constitutional crisis. Some would say this is the greatest humiliation for Britain since Suez and I wouldn't disagree. The outlook for the UK market is covered in more detail in the UK market section.

Sustainable investing

One of the interesting findings from our Analyst Survey this year was the fact that 70% of our researchers said the companies they followed were increasing their focus on environmental, social and governance (ESG) policies. That was a 12-percentage-point increase on last year's survey. The trend is particularly noticeable in Europe, where 92% of companies are paying closer attention to ESG factors.

But it is in China that the biggest uplift has been recorded. Two thirds of companies are looking at sustainability issues this year versus just one third in 2018. In part, this might reflect more foreign capital looking to invest in Chinese companies. Partly, it is just a reflection of more integrated global supply chains. As consumers in the developed world become more focused on the provenance of what they buy, companies are becoming more stringent about holding their own suppliers to account.

ESG has been around for a while but it is more mainstream now. Certainly, big investors like Fidelity are more explicit about sustainability criteria in their investment process, although it has always been an implicit concern of analysts and fund managers. As for end investors, many more are serious about making sure their money is making a difference.

This increased investor demand for sustainable investing options lies behind our recent launch of an ESG investment hub within the Markets & Insights pages of www.fidelity.co.uk. Here you can find information about what ESG is and why it matters. There are interviews with fund managers operating in this part of the market and links through to the funds which our partners at Morningstar have flagged as sustainable. I hope you find this new feature useful.

Select ETF

If ESG is becoming more mainstream, ETFs have already made that transition. Demand for low-cost exchange-traded funds has soared in recent years. Initially, ETFs were pretty much all passive funds, and these still dominate the market. But there is a growing variety of flavours of ETF now, including so-called smart beta funds which introduce an element of stock-picking via quantitative screens.

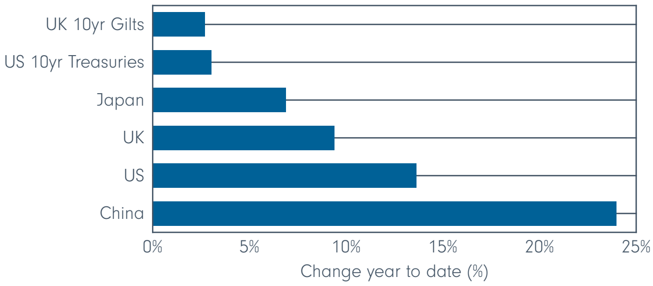
We recently launched a new select list for investors who are attracted by ETFs. It differs from our Select 50, which focuses on the quality and consistency of management of funds. This is the key differentiator of good actively-managed funds. For passive funds, this is obviously not an issue.

When it comes to ETFs there is less variation between the best and worst but there are important distinctions when it comes to cost and how closely the funds track their underlying indices. Our new Select ETF list is designed to give investors a short-list of funds which deliver what they say on the tin, at a reasonable cost. Again, I hope you find this a useful addition to our investment offering. You can find the Select ETF under the Funds tab at www.fidelity.co.uk.

Asset classes

SHARES

Strong start for global markets



Source: Refinitiv, as at 31.3.19, in local currency terms with income reinvested.

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The first three months of 2019 have been the best for global shares since 2012. At the same time bonds have had their best March quarter for three years. That's an odd combination because shares and bonds normally offset each other – worries about global growth, which boosts demand for fixed income, should be bad news for stock markets. So, someone's got it wrong – only time will tell us who.

The rally in shares since Christmas looks to be all about central banks. The Fed's shift from tightening to neutral has seen a return of risk appetite. The clear message from Jay Powell is that the squeeze is on hold. The even clearer message from the financial markets is that the next move in interest rates is likely to be down.

That will become even more likely if expectations of an earnings recession (two successive quarters of declining profits) are proved correct. The latest figures from Refinitiv point to a 1.7% decline in S&P 500 earnings in the first quarter of 2019, although there should be a bounce in the second three months. For mid-cap and smaller US companies, however, two quarters of lower profits are indeed now pencilled in.

Talking of recessions, a key indicator of economic downturns ahead, has started to flash red. The so-called yield curve which illustrates the different yields offered by different maturities of bonds is warning of trouble to come if history is any guide.

Usually, yields on longer-dated bonds are higher than on shorter-dated ones. This reflects the greater risks of lending your money to a Government or company for a longer period of time and the danger that inflation will erode the real value of your capital. If yields on shorter-dated bonds are relatively high (because interest rates are rising, for example), you can end up with a situation where short bonds are yielding more than long bonds. This is known as an inverted yield curve. It has tended to precede recessions and is seen as a good indicator of a slowdown at some point in the future. It is what we currently have, with the yield on 10-year Treasury bonds now lower than those on 3-month bonds.

The good news is that while the yield curve is a good sign of recessions it is a bad guide to the timing of them. The yield curve can invert up to two years before trouble in the real economy.

I tend to look at investment in terms of probabilities. If the economic outlook is mixed, profit margins at historic highs and valuations reasonably stretched versus history, the chance of a big rally in share prices is low. At the same time, I would put the chance of a big fall as being relatively low too. So, this argues for defensiveness but not excessive caution. The first quarter rally shows how expensive it can be to be out of the market when sentiment improves.

***Select 50 recommendations:** A global approach makes sense in today's environment and a focus on the defensive attraction of income-paying stocks too. That's why I'm happy to stick with the **Fidelity Global Dividend Fund**, one of my four fund recommendations for 2019. Dan Roberts runs this fund in a cautious way, with a focus on capital preservation as much as income or growth.*

PROPERTY

A slightly worrying disconnect is opening up between the economic slowdown in Europe and the persistent popularity of the region's commercial real estate markets. In a low-interest rate environment, investors are still viewing property as a safe source of income, but such is the weight of money chasing this opportunity that the yields that are actually achievable hardly compensate for the growing risks.

With weakening economic growth in Europe (1.5% forecast versus 1.9% predicted six months ago), further rental growth is possible on the back of limited speculative development but probably unlikely. At the same time external risks, such as political unrest, trade tensions and volatile financial markets, are growing.

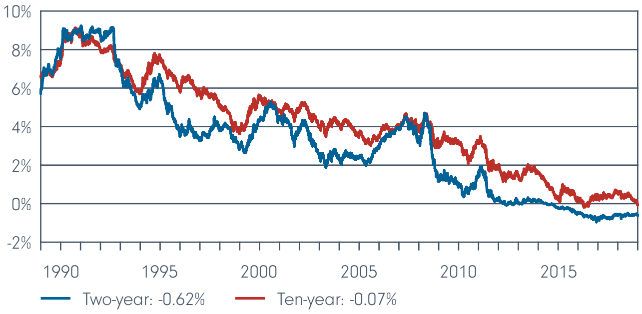
Normally, you would expect this kind of backdrop to be reflected in higher yields to compensate investors for the risks they are being asked to take. In fact, the reverse is happening. The amount of money raised by non-listed property funds continues to rise and the market is struggling to deal with the inflows in a sensible way. As always happens at this end of the cycle, investors start to become less fussy about where their money is put to work. In the European property market this shows up as a drift south and eastwards into riskier markets. This trend has been particularly pronounced over the past three years.

There is a real danger that investors over-bid on higher-yielding assets just to get exposure and to put money into the market. If they under-estimate the risks they are taking, or over-estimate rental growth, the outcome will inevitably be a disappointment.

Important information: Funds in the property sector invest in property and land. These can be difficult to sell so you may not be able to cash in the investment when you want to. There may be a delay in acting on your instructions to sell your investment. The value of property is generally a matter of a valuer's opinion rather than fact.

BONDS

The long decline of German bond yields



Source: Refinitiv/Fathom Consulting, as at 23.3.19

Past performance is not a reliable indicator of future returns.

The first three months of 2019 have been another tremendous period to be a bond investor, building on the strong gains already achieved in the fourth quarter of 2018. Investors are flocking to the perceived safety of government bonds as they fret that global growth is slowing. Slower growth means inflation and interest rate rises are less likely, making bonds attractive to investors at lower yields (and higher prices).

The triggers for investors' growth fears have been a series of worse than expected economic data announcements across Europe, China and the US. Central banks have responded with co-ordinated dovishness: in Europe, the ECB has restarted a bank-lending programme initiated in the dark days of the sovereign debt crisis; on the other side of the Atlantic, the Fed has indicated that it will not raise rates this year. The so-called 'dot plots' which indicate US rate-setters' intentions suggest few if any rises still to come in the current cycle while the market is even more cautious – the odds on the next movement being a rate cut are now even shorter than for no change let alone a rate hike.

So, are bond investors right to worry? Well, the International Monetary Fund recently reduced its global growth forecast by 0.2% to 3.5%. Economic surprises are routinely negative. Indeed, a key measure of this trend from Citi has pointed to worse than expected data for around a year now. Meanwhile, the relationship between short and long bond yields is starting to indicate trouble ahead. When yields on short bonds are higher than on long bonds, which is the case today, it indicates nervousness that policy is too tight and will in due course lead to an economic downturn, even a recession.

This might overstate the short-term outlook. In the past, an inversion of the yield curve like this has tended to be a good indicator of recession in due course. But there is often a sizeable lag between the bond market signal and the arrival of the downturn. Recession might be as much as 18 months or two years away still.

So, what should investors do in this new environment. Having seen yields on 10-year Treasury bonds fall from over 3.2% to less than 2.4% recently it could be argued that much of the bad news has now been priced in. Fair value for bond yields looks to be somewhere in the 2.5% to 3% range. In Germany, government bonds are once again being sold with a negative yield – in other words investors are paying for the privilege of lending their money to the German government. That said, if recession is on its way, then bond yields could go lower still. We have consistently made the case for a balanced portfolio, holding both shares and bonds and the current situation makes that case even more strongly.

***Select 50 recommendations:** Bonds are excellent diversifiers in a balanced portfolio. In addition, they provide secure income and less volatility than shares. There is, therefore, a place for them in any portfolio, but particularly for older investors who are likely to have less tolerance for the ups and downs of the stock market. Given the complexity of bond investing, we recommend a couple of approaches. The first is to invest in a flexible bond fund that has the ability to move assets between different types of bond according to changes in the investing environment. The **Fidelity Strategic Bond Fund** and the **Jupiter Strategic Bond Fund** are both good options. The second approach is to invest in a fund like the **Fidelity Select 50 Balanced Fund**, which holds a spread of bonds and shares to deliver a smoother ride for investors.*

Important information: There is a risk that the issuers of bonds may not be able to repay the money they have borrowed or make interest payments. When interest rates rise, bonds may fall in value. Rising interest rates may cause the value of your investment to fall.

COMMODITIES

The outlook for oil, the world's most important commodity, is intimately tied up with President Trump's re-election bid. He watches the oil price like a hawk, not as an investor but because he knows how important it is to the financial well-being of the average mid-Western motorist and businessman who will determine whether he gets another four years in the White House or not.

Because of this, we should expect the oil price to be increasingly in the news over the next 18 months. President Trump's Twitter account has been buzzing recently with a running commentary on the desirable level for the oil price. Unsurprisingly, he tends to think it's too high most of the time and particularly whenever it gets to $70 a barrel or higher. America is now a significant producer of oil, too, but in terms of voter numbers the President has correctly calculated that a lower cost of crude is better for his electoral prospects.

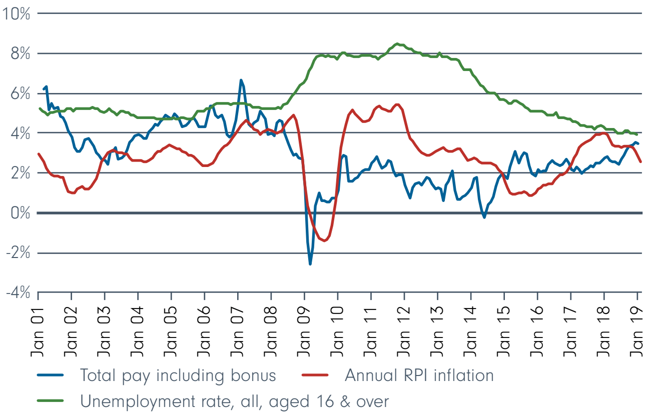
This puts the President at loggerheads with the Middle East's biggest producer, Saudi Arabia, which needs a price at this level, or preferably above $80 a barrel, to balance its books and fund an expensive economic transformation away from its dependence on fossil fuels. Saudi Arabia is America's key ally in the region, essential to the US's desire to keep Iran in check. But its relationship with America is not one of equals.

That means that any upward pressure on the oil price is likely to be resisted by the White House. Add in a slowing global economy and the chance of Brent and WTI rising much above their current levels – well off the lows reached in the fourth quarter market slide – looks slim for the time being.

Stock markets around the world

UK

The UK's improving economic backdrop



Source: Refinitiv/Fathom Consulting, 12 month changes, as at 15.2.19

Past performance is not a reliable indicator of future returns.

I recently spoke at the Master Investor Show in London, asking the question: is now the time to Buy British? For those of us of a certain age, this expression is evocative of a patriotic bid to encourage us to buy domestically-produced goods. A similar campaign saw people claiming: 'I'm backing Britain'.

It sounds quaint now, but truth be told it was already an outdated concept when it was launched in the late 1960s. The decline in British manufacturing had already set in and we were on a path to a service-led, financialised economy and the post-industrial problems that we are still dealing with today.

However, there is one area of British life where we continue to demonstrate a significant home bias. Our stock market portfolios are materially overweight UK shares. Perhaps a third of retail investments are in UK-listed shares compared with a contribution of around 6% to the total market capitalisation of global stocks.

Does this make sense? From a strategic asset allocation point of view, it does not. When you consider that the stock market itself is structurally biased towards developed economies and away from the emerging markets where much of the growth is to be found, our home bias is even worse than it looks at first blush.

From a tactical point of view, however, a case can be made for being overweight the UK. In my Master Investor presentation, in fact, I argued that up to 25% of a portfolio in UK-listed shares could be justified. How so?

Well, the first reason is the relative underperformance of the UK market in recent years. £100 invested in the FTSE 100 in 2014 would be worth just £107 today. That compares with £149 for the same amount invested on Wall Street and £178 in China. Past performance is not a reliable indicator of future returns.

The underperformance has led to a sizeable valuation discount for the out-of-favour UK market. British shares can be bought for around 12.5 times expected earnings. That is cheap compared with other markets, notably the US, and it is cheap when looked at against the historical average.

The other key valuation measure, the dividend yield, also argues for a bias towards UK stocks. The yield of around 4.5% on the FTSE 100 compares with income from UK Government bonds of under 2% and to interest rates of just 0.75%. If we have to wait for some more clarity on the economic and political outlook in Britain, we are at least being compensated in the meantime with a decent income.

Of course, low valuations are not necessarily attractive if the economic backdrop is unsupportive. That is not the case, however. Employment is stronger than at any time since the 1970s and wages are growing faster than inflation again. The public finances are in surprisingly good shape given the uncertainty.

Most importantly, UK companies continue to deliver reasonable earnings growth. In the recent earnings season, around 60% of companies met expectations and 22% exceeded them, according to Goldman Sachs.

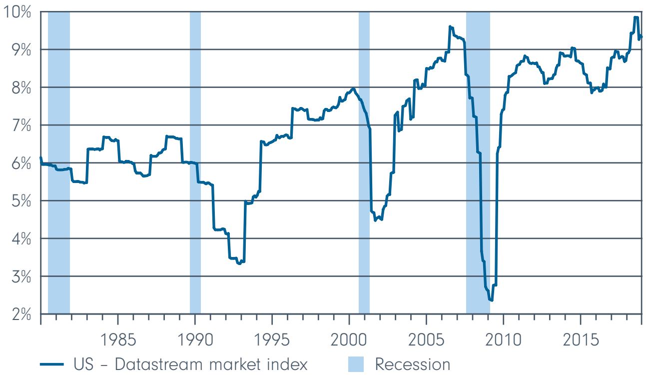
Finally, it is worth bearing in mind that while British concerns have soured sentiment towards UK shares, the London market is not really a reflection of the UK economy. Only a quarter of FTSE 100 companies' earnings are made at home and only half of those in the FTSE 250.

So, the UK remains one of the more attractive destinations for investors today. The bad news of Brexit has been priced in. Its possible resolution has not.

***Select 50 recommendations:** The Select 50 has a number of good UK funds. As I explain elsewhere, I struggled at the beginning of the year to decide which of these would be the best way to play my positive view of the UK market outlook. The **Fidelity Special Situations Fund** is an excellent choice for investors who are convinced that the economy will bounce back strongly from the Brexit uncertainty that has clouded the outlook for so long. For more cautious investors, I stick with my preference for Nick Train's **Lindsell Train UK Equity Fund**. I am actually happy to own both in my own portfolio.*

US

US profit margins remain at all time highs



Source: Refinitiv/Fathom Consulting, as at 23.3.19

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This is a really interesting moment to be invested in the US stock market. Investors are being pulled in two directions, with a newly-dovish Federal Reserve boosting sentiment while trade tensions and the end of the so-called Trump Bump are knocking confidence. At the moment the glass is half full, but the New Year rally feels like it has run its course for now.

The change in the Fed's approach over the past six months or so has been extraordinary. From steady-as-she-goes tightening to no rate rises and a pause in quantitative tightening in the blink of an eye. The market's knee-jerk reaction has been positive, but it is just as plausible to wonder whether the US central bank knows something that the rest of us don't yet.

Our Analyst survey certainly provided some reasons to be concerned about the sustainability of America's economic and market strength. For the first time since his election in 2016, President Trump has started to be viewed as a negative influence with almost half our US analysts thinking his policies will be a drag, up from only 13% a year ago.

This is a significant swing from the initial optimism about lower corporate taxes, deregulation and infrastructure spending which greeted the election shock just over two years ago. For the first half of President Trump's first term it paid to give him the benefit of the doubt. He may have failed to deliver all he promised on infrastructure, but tax reform and less red tape have been a positive for investors.

The key driver of increased pessimism is obviously the trade situation, with tariffs expected to weigh on most sectors. Sectors with complex supply chains are the most exposed but the impact is being felt across the market from consumer industries, where higher supply costs are eating into margins, to technology, autos, energy and materials.

With an election to win in 18 months' time, Mr Trump has an incentive to strike a deal with the Chinese on trade and he will no doubt try to push through some electoral sweeteners over the next year or so. Whether he can do that with the Democrats in control of the House of Representatives remains to be seen.

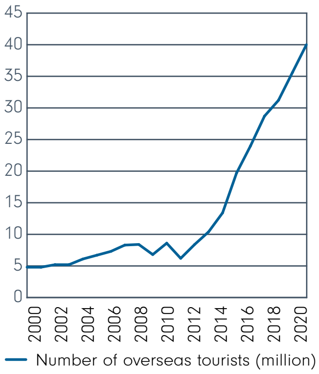
As for the Fed, while it looks like the will is there to keep stimulating the economy, it is less clear that inflation will give Jay Powell the luxury of inaction indefinitely. With the jobs market as hot as ever, it must surely only be a matter of time before wage inflation starts to be a concern again. If that coincides with a slowing in activity, then the high profit margins shown in the chart may not be sustainable.

The US stock market remains the highest-priced in the world. A case can always be made for that. America is a defensive market and a perceived safe haven for global investors. But the recent recovery of the fourth quarter's market losses means the tactical reason to buy the US has disappeared for now.

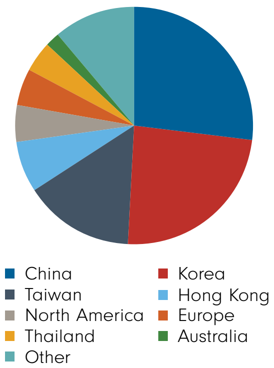
Select 50 recommendations: *Investors can't safely ignore the US market. It represents half of global markets' value and a long-term investor will always want a decent exposure to American shares. But now feels like a good time to be more defensive. Within the Select 50's North American category, the* ***JPM US Equity Income Fund*** *feels like a safer option in this environment. I would also suggest getting US exposure via a global fund, which can ease back on the US weighting if necessary. The* ***Rathbone Global Opportunities Fund*** *has a higher than average US bias so could be a good proxy for the US for more cautious investors.*

JAPAN

Japan: the new tourist hotspot



Overseas tourists by country



Source: Refinitiv/Fathom Consulting, as at 31.12.18

The Japanese economy is more exposed to the ups and downs of global trade than almost any other and it has been caught in the crossfire of the US/China battle for economic dominance. Between them, these two giant economies account for nearly half of all Japanese exports.

The swings in, for example, machine tool orders are dramatic and growth in these stands at a multi-year low currently. Unsurprisingly, manufacturers are less optimistic, with purchasing managers' indices in contraction territory for the first time in over two years. Industrial production data has also rolled over.

The impact can be exaggerated. With consumption accounting for 60% of economic output and exports 20%, the Japanese economy is pretty stable. It is not an emerging market. But the ups and downs of exports can make the difference between growth and retrenchment. The first quarter numbers will therefore make difficult reading.

The good news is that the consumption side of the economy is in good shape. Unemployment is close to an all-time low. The size of the labour force has recovered its mid-1990s high and real, inflation-adjusted wages continue to rise.

The Japanese domestic economy is also getting a significant boost from an explosion of inbound tourism, mainly from China and South Korea. The number of overseas tourists to Japan has grown in less than a decade from around 5 million to perhaps 40 million next year, as the chart shows. Industries like cosmetics are seeing growth of 20-40%.

Add in persistently loose monetary policy and it is not hard to see why inflation is now safely back in positive territory – that's good news in a country where deflation has tended to be the problem. Assuming that the Government holds its nerve and pushes ahead with a VAT hike to 10% later this year, the upward pressure on prices will continue.

The volatility of Japan's export sector is reflected in big swings in investor sentiment towards Japan, in particular from overseas. The fourth quarter sell-off was even more pronounced in Tokyo than in other markets around the world. That led to Japan being one of the worst-performing major markets in 2018. So far in 2019 the recovery has lagged too. Unsurprisingly, foreign investors were big net sellers of Japanese shares last year and they are more underweight Japan than when reforming Prime Minister Shinzo Abe was elected in 2012.

The consequence of all this has been a savage de-rating of Japanese shares and they are now almost (but not quite) as out of favour as those in the UK. This is not totally without justification. Earnings estimates have started to decline after a strong three-year upsurge. But it does look to have gone too far. The valuation of Japanese shares is approaching historical lows. When measured against assets (the price-to-book ratio), Japanese shares are around three times better value than their counterparts in America.

Japan can be a frustrating market to invest in. But at a time when markets like the US look vulnerable to an earnings recession and are still highly-rated, Japan's potential for continuing growth in returns and an undemanding valuation make it feel like a safe haven.

Select 50 recommendations: *We make no apology for sticking with our long-standing Japan recommendation, the* ***Baillie Gifford Japanese Fund****. Managed by Matthew Brett, this fund is well-placed to capitalise on Japan's competitive advantages in sectors like automation and robotics. Baillie Gifford has a range of excellent funds and, with long experience in the country, this is one of its best offerings.*

EUROPE

It is not difficult to paint a pretty gloomy picture in Europe. The latest data out of the region's engine room, Germany, have been disappointing and the European Central Bank, always cautious, has become even more pessimistic than usual. The upturn in European interest rates looks further away than ever and investors are once again paying for the privilege to lend to the German government.

Like Japan, Europe is vulnerable to any downturn in trade conditions around the world, thanks to its relatively high exposure to exports. The China-led slowdown is clearly not good news.

So why would anyone be interested in investing in Europe? Well, the time to get interested in a market is when no-one else is. Sentiment is now so bad in Europe that for some contrarian investors it's actually starting to look good. Cumulative equity fund flows in Europe are now at a 15-year low and fund managers have not been so pessimistic about the asset class since the depths of the sovereign debt crisis.

A key development this year could be further stimulus by China. There is a close link (with a lag of a few months) between optimism in China and in Europe. And we are beginning to see an uptick in key sectors like automotive. Also, consumer sentiment remains strong, underpinned by job creation and accelerating wage growth against a backdrop of subdued inflation. In addition to monetary stimulus, all Eurozone countries are expected to implement fiscal boosts this year.

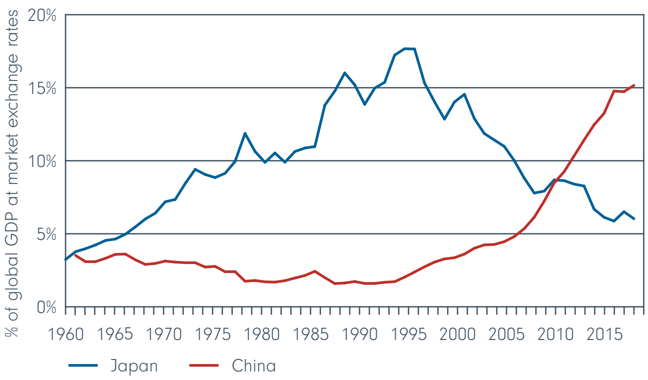
Crucially, after recent outflows, European shares are cheap. Compared with global stocks, they have not been such good value in 50 years. The gap between the dividend yield and bond yields in the region has not been this wide in nearly a century!

It's worth remembering that Europe is a well-diversified market with a long-list of best-in-class companies. Contrarian antennae should be twitching.

Select 50 recommendation: *The Select 50 has a range of growth options focused on Europe, of which the* ***Fidelity European Growth Fund*** *is showing the best recent performance. For income-focused investors looking to pick up that attractive yield differential, we favour the* ***Invesco European Equity Income Fund****.*

ASIA AND EMERGING MARKETS

China and Japan: changing places



Source: Refinitiv/Fathom Consulting, as at 23.3.19

Past performance is not a reliable indicator of future returns. When investing in overseas markets, changes in currency exchange rates may also affect the value of an investment. Investments in emerging markets can be more volatile than other more developed markets.

The Chinese stock market staged a remarkable recovery in the first quarter of 2019 after a dreadful performance last year. The word on the ground in Hong Kong is that investors came back after the Lunar New Year break with a completely different mindset and the market began to fly. In the short-run shares may pause for breath as many investors' full year targets have already been hit.

Earnings season will be crucial. 2018 was a tough year on the back of the Trump trade war and numbers are not expected to be great. Investors are looking through these likely disappointments to the lagged impact of new stimulus measures. The only question is whether it has already been priced in.

This is a familiar situation for investors in the volatile Chinese market, so why might things be different this time? Firstly, compared with five years ago when Chinese shares boomed and burst, there is more institutional participation in the market. It is still a retail-led and sentiment-driven market but less so than it was. It is also better regulated.

The other key difference is that Chinese shares are progressively being integrated into the global indices that so much international money tracks these days. When China finally gains its full weighting in MSCI's indices, A shares will account for more than a quarter of the Asia ex-Japan indices. China will be impossible to ignore.

The other key market in the region is India. This is a very different story. Less volatile than China, and more highly-rated, India looks fully valued, especially after its recent strong run in anticipation of another Modi victory in the upcoming general election. The fundamentals are good in India, but the market is expensive.

Select 50 recommendations: *Three months ago, we said the* ***Fidelity Emerging Markets Fund*** *had been hit hard by the region's volatility and was due a rebound. Sure enough, Nick Price's focus on high-quality companies which he expects to deliver good returns over the medium term has come back into favour as the market has picked up again. This is still a good way of playing emerging markets. We also like the more predictable* ***Stewart Investors Asia Pacific Leaders Fund****.*

The Select 50 – Our experts' favourite funds

The funds on the Select 50 are hand picked from the range available on our fund supermarket. For more information on how these funds are selected visit fidelity.co.uk/select. The Select 50 is not advice or a personal recommendation to buy funds. Equally, if a fund you own is not on the Select 50 (or was on the previous Select List and isn't on the Select 50), we're not recommending you sell it. You must ensure that any fund you choose to invest in is suitable for your own personal circumstances. **Please be aware that past performance is not a reliable indicator of what might happen in the future**. The value of investments and the income from them can go down as well as up, so you may not get back what you invest. For funds that invest in overseas markets, the returns may increase or decrease as a result of currency fluctuations. Investments in small and emerging markets can be more volatile than other more developed markets. For funds launched less than five years ago full five-year performance figures are not available.

STANDARDISED PERFORMANCE DATA (%) OVER THE PAST FIVE YEARS

% (as at 31st March)	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	Morningstar Fund Rating
ASIA AND EMERGING MARKETS						
Fidelity Emerging Markets	21.6	-7.6	27.5	15.2	-3.6	✪✪✪
Fidelity Funds – Asian Special Situations	-	-	38.4	13.1	3.8	✪✪✪✪✪
Maple-Brown Abbott Asia Pacific ex Japan	-	-7.4	36.8	2.7	2.2	✪✪✪
Merian Asia Pacific	-	-6.4	43.3	16.5	-1.8	✪✪✪✪✪
Stewart Investors Asia Pacific Leaders	31.2	-4.4	26.0	0.3	10.3	✪✪✪✪
BONDS						
Fidelity MoneyBuilder Income	12.3	-0.5	7.7	1.6	3.0	✪✪✪
Fidelity Strategic Bond †	9.9	-1.6	4.4	1.7	2.4	✪✪✪✪
Invesco High Yield	4.4	-4.1	9.8	8.2	0.6	✪✪✪✪
JPM Global High Yield Bond	0.2	-4.8	13.6	2.5	4.2	✪✪✪✪
Jupiter Strategic Bond	5.3	-0.9	8.1	2.0	3.3	✪✪✪✪
M&G Corporate Bond	9.8	0.2	7.6	2.2	2.9	✪✪✪
M&G Optimal Income	4.1	-0.6	8.3	4.2	0.6	✪✪✪✪
Royal London UK Government Bond	11.5	2.5	6.1	0.0	3.5	✪✪✪
SLI Global Index Linked Bond	9.1	-0.3	6.0	1.1	2.2	✪✪✪

The Select 50 is liable to be changed between publication dates for the Investment Outlook. For the most up-to-date list please visit www.fidelity.co.uk/select50

† The investment policy of Fidelity Strategic Bond Fund means it can be more than 35% invested in government and public securities. These can be issued or guaranteed by other countries and governments. For a full list please refer to the fund's prospectus.

% (as at 31st March)	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	Morningstar Fund Rating
EUROPE						
Baring German Growth	6.1	1.2	31.2	7.8	-10.6	✪✪✪✪✪
Fidelity Funds – European Growth	-	-	29.6	0.2	7.5	✪✪✪✪✪
FP CRUX European Special Situations	11.2	6.3	22.2	8.9	-4.9	✪✪✪✪
Invesco European Equity Income	7.5	-6.5	30.1	3.5	-4.3	✪✪✪
JOHCM European Select Values	8.3	4.0	25.3	-0.5	-1.4	✪✪✪✪
Jupiter European Special Situations	7.7	0.4	21.1	3.2	-4.8	✪✪✪
Threadneedle European Select	14.8	-0.8	19.4	8.0	1.2	✪✪✪✪✪
GLOBAL						
BNY Mellon Long-Term Global Equity	18.4	3.7	28.0	2.9	20.1	✪✪✪✪
Fidelity Global Dividend	19.7	6.2	23.6	-4.5	15.3	✪✪✪✪
Fidelity Global Special Situations	24.6	0.7	36.6	4.5	6.3	✪✪✪✪✪
Invesco Global Equity Income	14.2	-2.3	27.5	2.4	3.8	✪✪✪
Rathbone Global Opportunities	20.1	5.9	24.8	11.7	13.9	✪✪✪✪✪
JAPAN						
Aberdeen Japan Equity	33.0	-1.3	27.4	3.9	-8.1	✪✪✪✪
Baillie Gifford Japanese	26.9	-6.4	44.2	15.4	-1.1	✪✪✪✪✪
NORTH AMERICA						
Fidelity American Special Situations	33.0	3.8	32.5	-8.6	14.6	✪✪✪✪
JPM US Equity Income	26.2	1.9	33.8	-3.5	17.3	✪✪✪✪✪
JPM US Select	30.1	-1.2	37.4	-2.0	17.2	✪✪✪✪
Merian North American	-	2.3	39.6	1.0	12.8	✪✪✪✪✪
Schroder US Mid Cap	30.1	1.4	39.9	-5.2	11.6	✪✪✪✪

STANDARDISED PERFORMANCE DATA (%) OVER THE PAST FIVE YEARS

% (as at 31st March)	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019	Morningstar Fund Rating
UK						
Fidelity Enhanced Income	8.4	-0.3	10.8	-6.6	5.0	✪✪
Fidelity Special Situations	9.2	2.9	21.5	4.4	1.2	✪✪✪✪
Franklin UK Equity Income	11.7	1.0	19.0	1.4	7.5	✪✪✪✪
JOHCM UK Dynamic	6.5	-6.1	29.6	4.4	2.1	✪✪✪✪
JOHCM UK Equity Income	7.4	-6.8	24.5	7.3	-0.9	✪✪✪✪
LF Lindsell Train UK Equity	17.2	4.1	15.7	8.4	12.9	✪✪✪✪✪
Liontrust UK Growth	9.2	2.7	23.2	2.6	7.2	✪✪✪✪
Majedie UK Equity	6.5	-7.0	25.6	-3.1	2.9	✪✪✪✪
Threadneedle UK Mid 250	10.1	5.8	7.3	9.2	-3.8	✪✪
ALTERNATIVES						
Aviva Investors Multi-Strategy Target Return	-	-1.8	1.5	-0.7	-2.0	–
Invesco Global Targeted Returns	7.7	0.7	4.2	-0.3	-2.1	–
Investec Global Gold	-9.7	17.6	26.1	-9.8	11.8	✪✪✪✪
iShares Global Property Securities Equity Index	-	2.6	16.9	-7.8	21.9	✪✪✪✪
Jupiter Absolute Return	2.7	7.0	5.6	-3.0	-4.2	–

Before you invest, please ensure you have read Doing Business with Fidelity and the Key Investor Information Document (KIID) or Fund Specific Information Document (FSI), relevant to your chosen fund(s). These documents give you all the information you need to know about Fidelity, including details of the objective, investment policy, risks, charges and past performance associated with the fund(s). Instructions on how to access these documents can be found at fidelity.co.uk/importantinformation. If you do not have a computer or access to the internet please call Fidelity on **0800 41 41 61** to request a printed copy of the documents. The Full Prospectus is also available on request from Fidelity.

Source: Morningstar as from 31.03.14 to 31.03.19. Basis: bid to bid with income reinvested in GBP. Excludes initial charge. The fund's primary share class according to the IA is shown. For the latest yields please call 0800 41 41 61 or visit fidelity.co.uk

Market data

Please be aware that past performance is not a reliable indicator of what might happen in the future. When investing in overseas markets, changes in currency exchange rates may affect the value of your investment. Investments in small and emerging markets can be more volatile than those in other overseas markets.

INVESTMENT VALUATION AT A GLANCE

	Price-earnings ratio 2019E	Dividend yield 2019E
Shares		%
US	17.1	2.0
Europe	13.5	4.0
UK	12.7	4.9
Japan	12.7	2.5
Asia Pac ex Japan	13.7	3.1
Emerging Market Asia	13.2	2.6
Latin America	12.5	3.5
Central East Europe, Middle East & Africa	9.3	4.6

	Redemption Yield
Bonds	%
ML Global High Yield	6.3
German 10-Year Bunds	-0.1
ML Global Corporates	2.9
UK 10-Year Gilts	1.5
US 10-Year Treasuries	2.4

INVESTMENT PERFORMANCE AT A GLANCE

% (as at 31st March)	3 m	2014-2015	2015-2016	2016-2017	2017-2018	2018-2019
Shares						
S&P 500	18.0	11.7	2.5	16.2	13.0	12.1
FTSE All Share	12.1	6.7	-5.3	21.9	1.4	8.8
FTSE 100	12.2	6.5	-6.6	23.2	0.4	10.2
FTSE 250	12.7	8.5	0.1	15.7	5.1	3.7
FTSE Small Cap	7.7	4.6	1.2	22.7	6.9	2.2
Euro STOXX	16.9	20.2	-18.0	22.6	-0.6	6.6
Shanghai SE	30.5	89.3	-22.2	7.2	-2.7	2.6
Shenzhen	27.9	40.6	-2.9	0.1	0.6	-7.0
MSCI Emerging Markets	14.1	2.2	-14.6	20.0	24.4	-5.1
Nikkei 225	9.5	31.0	-15.2	19.7	14.3	4.1
MSCI World	11.9	4.0	-5.3	12.5	11.5	2.0
TOPIX	8.5	28.6	-16.8	0.0	12.3	-4.8
Bonds						
US 10-Year Treasuries	0.9	11.6	2.3	-2.5	-1.8	4.9
UK 10-Year Gilts	1.2	13.9	4.3	6.4	-0.9	5.2
German 10-Year Bunds	2.1	16.2	1.8	-0.1	-0.5	6.5
JPM Emerging Markets Bond Index	6.0	4.9	3.5	8.8	3.3	3.5
ML Global High Yield	6.9	-2.2	-1.3	13.9	6.6	3.7
ML Global Corporates	3.4	-0.1	1.5	1.6	6.2	1.2
Commodities						
CRB Commodities Index	9.6	-28.7	-22.1	10.3	6.0	-1.1
Crude Oil (Brent)	30.0	-48.3	-32.4	42.2	32.3	0.3
Crude Oil (WTI)	32.3	-53.1	-19.5	32.1	28.3	-7.4
Gold Spot	-0.3	-5.9	1.0	2.5	6.3	-3.2
LME Copper	13.5	-9.6	-19.0	17.9	18.0	-4.1
GSCI Soft Commodities	3.9	-30.0	-3.0	5.7	-12.0	-9.8
Silver	-4.4	-16.7	-11.0	19.0	-11.1	-8.6

Source: Refinitiv, 31.3.19. in local currency terms. Valuations: Source Citigroup Global Equity Strategist – Citi Research, MSCI, Worldscope, FactSet Consensus estimates as at 28.3.19. Bond Yields: Source Refinitiv, as at 31.3.19.