INVESTMENT OUTLOOK

Fidelity Personal Investing's market and investment view

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- Soft landing for the economy
- Shares: the asset class of choice
- What does 2030 look like?
- New fund picks for 2020

January 2020

"Last year's interest rate cuts and an easing of trade tensions mean investors can hope for another extension to the long economic and market cycle"

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	☑	▲	A soft landing for the global economy, still reasonable valuations and supportive central banks make shares the asset class of choice.
Bonds	☒	▼	Government bonds are expensive and credit spreads too tight. Inflation and default risk more than offset any diversification benefit.
Property	☒	▼	Although real estate can be a hedge against modest inflation, yields are too low to compensate for the growing risks in the asset class.
Commodities	⊟	▶	Gold and oil are rising on geo-political tensions. But fundamentals point to them staying range-bound.
Cash	☑	▶	The direction of travel is probably upwards for interest rates from here. In the meantime, cash provides a portfolio with some dry powder.

Regions	Current View	3 Month Change	
US	⊟	▶	The valuation argument against the US has got even stronger. But any top of cycle blow-off could see multiples go even higher. Hold on.
UK	☑	▲	There's uncertainty still around the UK's departure from Europe. But the economy's in reasonable shape and valuations are attractive.
Europe	☑	▶	A cyclical upturn would benefit Europe more than most. At the same time policy is supportive and valuations are reasonable.
Asia Pacific ex-Japan	☑	▲	With trade tensions on hold until after the Presidential election, cheap valuations, corporate reforms and structural growth are all positives.
Japan	⊟	▼	Japan had a good 2019 and it looks less obviously cheap than a year ago. Short term, plenty of positives; longer term there's lots to worry about.

Current View: ☑ Positive ⊟ Neutral ☒ Negative

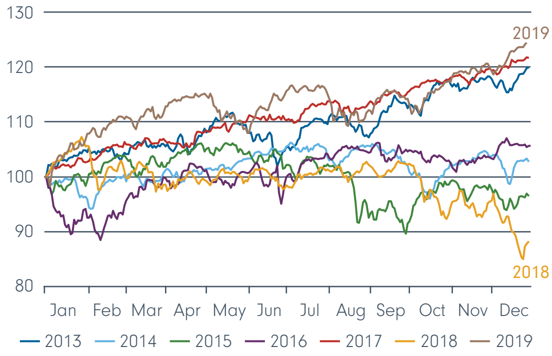
3 Month Change (since the last Investment Outlook): ▲ Upgrade ▶ Unchanged ▼ Downgrade

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

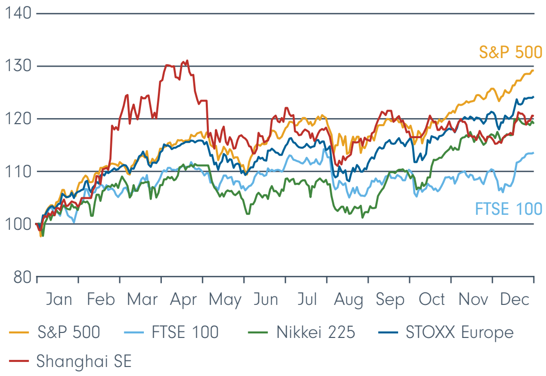
2019 in three charts

A vintage year for global stock markets

What a difference a year makes. Last January, sentiment was at rock bottom. Today we are enjoying the afterglow of the best 12 months for global investors since the financial crisis. A year ago, the outlook for global growth was poor and the weakness of the economy looked like being exacerbated by the Federal Reserve's determination to normalise US monetary policy. The first half of 2019 saw the Fed back away from higher rates, however, and then implement three consecutive cuts in the cost of borrowing between July and September. A reduction in trade tensions between the US and China during the autumn kicked recession fears into the long grass – until after this year's Presidential election anyway. 2019 was not a great year economically, or in terms of corporate earnings, but investors' expectations were so low in January that there was only one way for markets to go.



Source: Refinitiv, as at 31.12.19, with income reinvested.



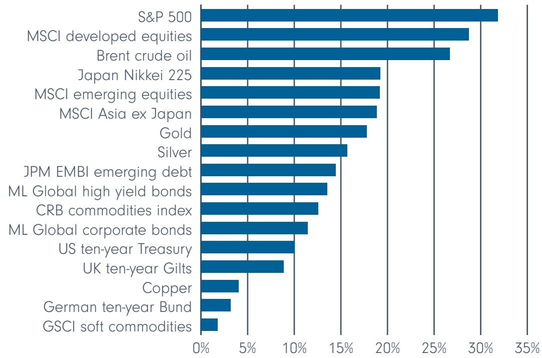
Source: Refinitiv, as at 31.12.19 with income reinvested.

Another year of dominance for Wall Street

What you can't see from the chart above is the dispersion of returns from markets around the world. Once again, it was a bumper year for the US, which has rewarded investors consistently since the financial crisis. In recent years, it has never paid to bet again Uncle Sam. China had a storming first quarter as its more volatile market bounced back from a dreadful fourth quarter at the end of 2018. Closer to home, it was all about Brexit. The market picked up after the general election when it became clear that the country had rejected Jeremy Corbyn's radical agenda. But the uncertainty of our extended departure from the EU has taken its toll on sentiment. The UK is cheap compared to most other markets, but a tricky 12 months ahead could keep it that way. Diversification continues to make sense, but it's hasn't been essential in a year when most investments delivered a good return.

Everyone's a winner

The most important driver of investment returns in 2019 was the Fed's U-turn over the summer. The mid-cycle pause for US interest rates enabled central banks around the world to follow suit. Easier monetary policy was the fuel for a broad-based rally that delivered gains for shares, bonds and commodities alike. Falling interest rates underpinned confidence that recession could be avoided, boosting shares. Lower rates fed through into reduced bond yields too, pushing prices higher. And the easing of trade tensions helped oil and copper rise as expectations of a growth slowdown receded. What was perhaps unusual was the simultaneous rise of gold and silver. The continuing enthusiasm for these traditional safe havens shows that confidence remains fragile. We should enjoy the gains while they last and prepare ourselves for the reality that all good things eventually come to an end.



Source: Refinitiv, total returns as at 27.12.19.

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. Investments in emerging markets can be more volatile than other more developed markets. 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. The views here are based on the house view of Fidelity's investment team, overseen by Paras Anand, Anna Stupnytska and Wen-Wen Lindroth. However, it is written for a UK personal investing audience and the ideas are linked explicitly to the Select 50 list of our preferred funds, which we consider the best way for our investors to implement the ideas discussed in the Outlook. I would like to thank the following for their assistance: Gary Monaghan, investment director in Hong Kong; Jeremy Osborne, investment director in Tokyo; Leigh Himsworth, portfolio manager in the UK; Neil Cable, Head of Real Estate; Kasia Kiladis, investment director for US equities; Natalie Briggs, investment director for European equities.

Focus: New Year, New Decade

The transition from one decade to the next should be of no concern to financial markets. There is no reason for share prices to distinguish between any ten-year period and the one following it. So, it is just a coincidence that the Japanese stock market peaked on New Year's Eve 1989 while the FTSE 100 did the same on the last day of 1999. It is also a matter of chance that the market should have bottomed in 2009. There really is no rational reason to be worried as we approach the end of 2019 with markets at new all-time highs!

It has indeed been a long bull market since investors emerged dazed from the wreckage of the 2008 financial crisis. But it has also been a long, slow recovery which has been characterised by persistently subdued sentiment. The fact that a bull market is long in the tooth does not necessarily imply that its days are numbered. Remember, markets rose without serious interruption (OK, the 1987 crash was a bit hairy) between 1982 and 2000.

As the first of the charts below show, investors are not exactly celebrating the market's new highs. Compared with the dot.com boom years, or even the period just before the credit crunch, there is a notable lack of exuberance – sentiment is neither particularly bullish nor bearish. Against a backdrop of sovereign debt crises, trade wars, austerity and other geo-political stresses, no-one has really believed in the bull market of the past ten years.

This is remarkable when you consider its scale. The S&P 500 has risen five-fold since 2009. The past decade has been a fantastic time to be an investor. Partly, this is due to the depressed starting point – the price you pay at the outset is always the most important determinant of investment returns. Partly, too, it is a reflection of the extraordinary intervention in the past ten years by the world's central banks, which have flooded markets with liquidity – the second most important driver of markets.

The lack of enthusiasm means that markets have delivered decent returns without ever ringing top-of-the-cycle alarm bells. The PE ratio chart below on the right shows that the US alone has become noticeably more expensive in recent years. Valuations elsewhere have remained within reasonable bounds. The third chart, showing growth in the global economy, explains why this has been so. Government and central bank stimulus have kept the show on the road for ten years, allowing companies to continue to grow and deliver the earnings that ultimately drive share prices higher over time.

Politically, it has been an extraordinary decade. We may be witnessing one of those sea-changes that former UK Prime Minister Jim Callaghan said come along every 30 or 40 years. The end of globalisation and the rise of a new protectionist world, the replacement of one cold war with another. But this need not worry us as investors, as long as capitalism is allowed to continue doing what it does well (improving most people's lives) and can be restrained from its worst excesses (destroying the planet that sustains it).

The world in 2030 – what comes next?

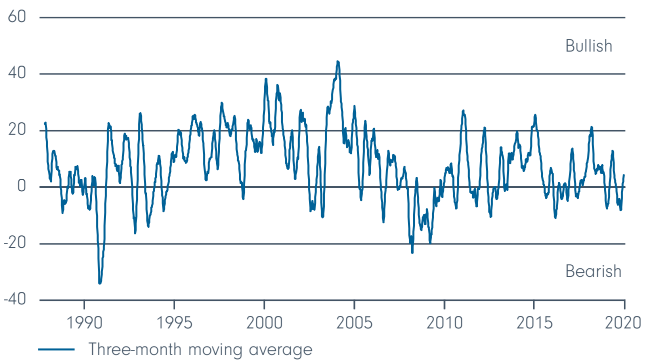
So, we enter the new decade on the back of a 1990s-style bull market, but without the millennial over-exuberance that warned us that the dot.com bubble was ready to burst. What do the next ten years hold for investors?

From a market perspective, I suspect it will be a less exciting period for the simple reason that the most important market in the world, Wall Street, is unlikely to re-rate much higher from here on a sustainable basis. Further progress for shares will reflect earnings growth not materially higher multiples. While I am confident that the next decade will see its fair share of productivity gains and technological leaps, profit margins are already high, and wages have been kept in check for a long time. If you were hoping for strong returns to shareholders, you might not choose to start from here.

As for bonds, the long retreat from the historically high yields in the early 1980s has run its course. As fiscal policy picks up the baton from central bank action in the years ahead, I would expect yields to rise again. Indeed, it looks as if the inversion of the yield curve in the summer was a flash in the pan. Normal service (long yields higher than short ones) has resumed.

Some things we can be pretty certain about in the coming years. One is demographics. The global population is expected to reach 8.5 billion by 2030 and perhaps 10 billion by the middle of the century. Populations in the developed world will also continue to age. Grandparents will outnumber children as life

US investor sentiment

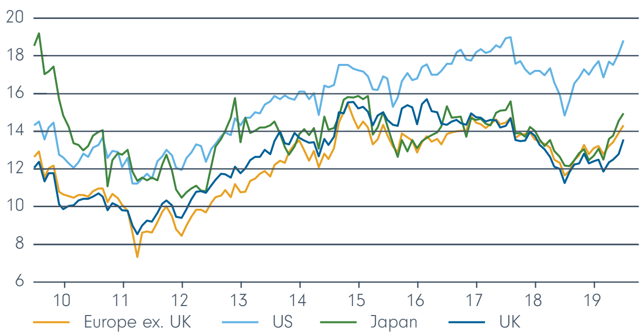


Past performance is not a reliable indicator of future returns. Overseas investments will be affected by movements in currency exchange rates.

Source: Refinitiv, as at 27.12.19.

Valuations: only the US becoming more expensive

12 month forward Price/Earnings Ratios



Past performance is not a reliable indicator of future returns. Overseas investments will be affected by movements in currency exchange rates.

Source: Refinitiv, Fathom Consulting, 31.12.19.

expectancy continues to extend. Demographic change – the rise of the middle class in the developing world, the dominance of tech-savvy Gen Z-ers, the increase in age-related health spending – will be a key investment theme of the next ten years.

So too will be the emergence of climate change as a key financial and investment risk and of moral concerns as a more 'aware' generation inherits wealth and chooses to invest it more thoughtfully. Women are expected to control ever more money as the gender gap closes. Impact investing will move to the mainstream, with nine in ten millennials believing that business success should be measured by more than just financial performance.

A huge influence on markets, just as it has been over the past ten years, will be technology. We will interact even more frequently with online devices, of which there might be 500 billion by 2030. Technology will fuel economic growth and productivity but present us with ethical challenges as the boundary between man and machine becomes ever harder to distinguish.

But perhaps the biggest change in the world to come will be a reversal of the dominant trends of the past few decades towards unrestricted movement of labour, goods and capital. Globalisation has shaped the world we live and invest in today. Tomorrow's world may be more regional and national in nature. The internet may splinter into one US-dominated and one China-led domain. This world may be less favourable for financial assets than real ones like commodities, land and precious metals. Of course, this won't happen overnight, but it could be another reason why stock markets will face more headwinds than they have in recent years.

Fund picks: how we did in 2019 and where next?

Last year's four fund recommendations could not have been timed better. The stock market performed a dramatic U-turn at the beginning of 2019, and it would have been hard not to pick some winners in a year when most investments performed well.

The four I chose certainly delivered a decent return. I hedged my bets in the UK market by backing Nick Train's **Lindsell Train UK Equity Fund**, which I thought would benefit from any recovery in the out of favour domestic market while being protected from further Brexit uncertainty thanks to its quality focus. The fund rose by 22.8% in 2019.

Expecting dividend yields to continue looking attractive in a year when interest rates would probably pause and hopefully fall, the **Fidelity Global Dividend Fund** made the list. Again, this was a defensive play that paid off, up 20.5% over the year. The same cautious thinking lay behind my third pick, the **Fidelity Select 50 Balanced Fund**. Ayesha Akbar's multi asset fund did what it is designed to, mixing equities and bonds to deliver steady capital growth, up 12.4% by the year-end.

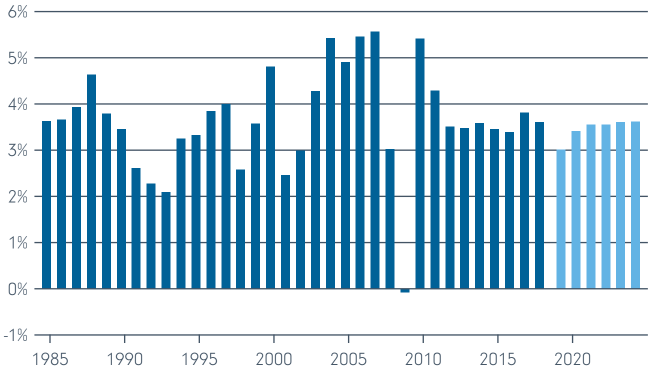
My final recommendation was a valuation play. Japan was very out of favour at the end of 2018, which looked like a good opportunity to invest in the high-quality **Baillie Gifford Japanese Fund**. It ended the year 18.5% higher than it started.

Looking forward to 2020, I am adopting an even more cautious stance as markets are so much higher this year than last. Two of last year's picks – both the Fidelity funds – make the cut again and I make no apology for that. There is no need to chop and change for the sake of it and I expect both of these defensively-managed funds to perform well again.

The two new options include another UK fund to replace Lindsell Train (which was removed from the Select 50 towards the end of 2019 on valuation, size and concentration grounds). This year's play on the over-sold UK market is the **Liontrust UK Growth Fund**, a middle of the road fund which should do well whichever of the growth or value styles prevails this year. The final pick is the **Artemis Global Emerging Markets Fund**, which looks for shares with good growth prospects, at a reasonable price and with a catalyst for an upward re-rating.

Please remember past performance is not a reliable indicator of future returns.

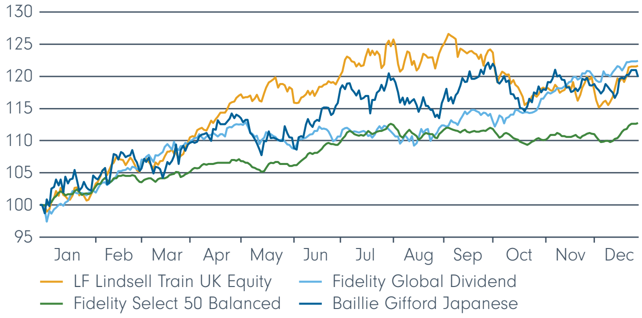
Global GDP: steady growth



Overseas investments will be affected by movements in currency exchange rates.

Source: Refinitiv, as at 27.12.19.

2019: a good year to be invested



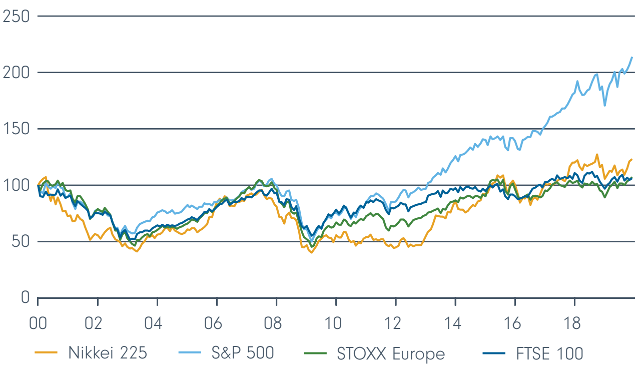
Past performance is not a reliable indicator of future returns. Overseas investments will be affected by movements in currency exchange rates.

Source: Morningstar, 27.12.19, bid to bid with income reinvested in GBP terms. Excludes initial charge.

Asset classes

SHARES

Shares: the 20 year recovery



Source: Refinitiv, as at 27.12.19 with income reinvested.

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After such a strong run for shares in 2019, it is asking too much to expect another bumper year for equities. However, with the impact of last year's interest rate cuts flowing through into 2020 and a likely further easing in trade tensions as we head towards the Presidential election, a soft landing for the global economy looks likely.

Shares are still supported by relative valuation measures. If interest rates, and so bond yields, remain lower for longer, shares will continue to be underpinned at today's levels. A glance back at previous late-cycle markets suggests that valuations could go higher still, and shares could rise even in the absence of the expected high single-digit earnings growth.

Looking for new catalysts, the combination of monetary stimulus, a willingness to tolerate higher inflation and improving economic growth could trigger more flows into equity markets. These flows might be further encouraged by a shift from monetary to fiscal stimulus. This would both encourage economic growth and make bond investors more nervous about returning inflation and so more willing to accept the apparently higher risk of investing in shares.

What are the main risks for stock markets in 2020? Despite the grudging reversal of some tariffs before Christmas, trade remains a bone of contention. If the Democrats come out hard on trade during the election campaign, President Trump may not wish to be outdone and could revert to a harder line approach.

The second concern surrounds interest rates. The Fed's U-turn in 2019 was the key driver of last year's strong market returns so any sign that wage inflation is returning could threaten a change in policy back towards normalisation.

The third risk is political. As in the UK last year, the US markets may start to price in the possibility of a Democrat win. The good news is that the US political system makes it hard for a President to drive through radical policy in the face of a Senate dominated by the opposing party. It is likely that the Senate will remain Republican.

So, a higher starting point than this time last year and the usual list of concerns is offset by reasonable valuations, the most helpful year in the Presidential cycle, a supportive Fed and a return to some earnings growth. Put it all together and shares remain the asset class of choice, especially, as the chart shows, outside of the US where the recovery of the last ten years has been significantly less pronounced.

Select 50 recommendations: *There is a wealth of choice in the Select 50 when it comes to global equity funds. The* ***Fidelity Global Dividend Fund*** *should benefit from another year of low interest rates, which will see investors chase income where they can find it.*

We are also big fans of James Thomson, who manages a US-focused fund with a weighting towards under-the-radar growth stocks, the ***Rathbone Global Opportunities Fund****; and Jeremy Podger, manager of the* ***Fidelity Global Special Situations Fund****, which looks for shares exhibiting exceptional value, competitive advantage or corporate change.*

COMMODITIES

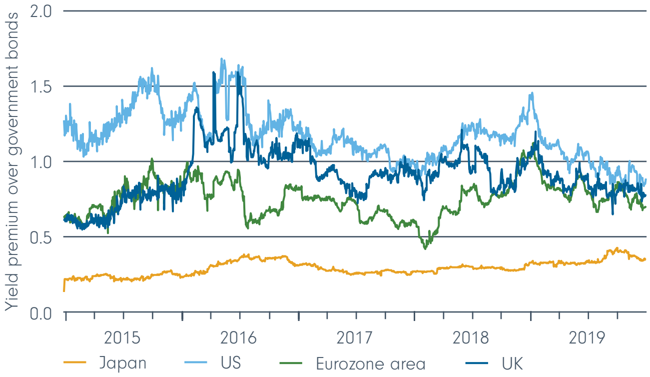
Looking back over 2019, it has been a pretty rewarding year for investors in gold and oil, which started the year from a low base. It's been less interesting for industrial metals, which track what have been subdued expectations for the global economy.

Gold tends to be driven by three main variables: real bond yields, the level of concern about financial risk and the dollar. Gold does well if bond yields are low, or negative, because there is less opportunity cost in holding a metal which pays no income. As yields rise, the appeal of gold will dwindle. If the economy picks up a bit as expected in 2020, it will also lose its safe haven appeal, although rising geo-political tensions are also a factor here. Recent events in the Middle East have seen gold hit a seven year high. Perhaps the best case for holding gold this year is the expectation that the dollar will retreat, which tends to boost the price of the metal.

As for oil, look on a two-year view rather than since the low point a year ago and the picture looks unexciting. Oil is being held back by over-supply from the US and subdued global demand. Offsetting these factors is OPEC's determination to rein in its own production to keep the oil price at a level that allows Saudi Arabia to balance its books and brings the valuation of its giant state-controlled producer Aramco close to the ruling family's $2trn target. The US-Iran stand off will also be key and the price of Brent has risen above $70 for the first time in three months as tensions have increased.

BONDS

Bonds: reward fails to match risks



Source: Refinitiv, as at 31.12.19.

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One of the notable features of financial market performance in 2019 was the simultaneous rise in both shares and bonds. This reflected the Federal Reserve's change of heart in July with bond yields following interest rates lower.

For bonds to have another good year in 2020 will require a continuation of last year's synchronised policy easing, which looks at odds with expectations of a soft landing for the global economy. With many trillions of dollars of bonds now offering investors a negative income, it would not take much for investors to start pricing in higher yields.

The most likely trigger of higher yields (and lower prices) is the return of inflation, which seems doubly likely because the Federal Reserve has indicated that it is prepared to tolerate a period in which consumer prices rise faster than target to make up for the many years in which they have undershot.

In addition to this, official policy seems to be moving towards a more inflationary mix. Higher government spending has started or is being promised in many countries (including the UK) while rising trade tariffs globally can be expected to push prices higher. More populist politics also promise rises in minimum wages. Finally, it is becoming clear in some parts of the world (notably Europe) that excessive monetary easing can be counter-productive, acting as a tax on banks and savers and so reducing activity rather than stimulating it.

If government bond yields start to rise, attention will then focus on the premium demanded by investors before they will put money into the riskier bonds issued by companies. This premium, or spread as it is known, stands at historically low levels, as the chart shows. Typically, spreads tend to widen in the later stages of an equity bull market when risks rise so it is likely that they will do so again, compounding the impact of rising government bond yields. This is particularly likely given the low quality of company debt in an environment of high corporate borrowings and onerous debt interest burdens.

Bonds can provide investors with useful diversification. If the expected pick up in economic activity does not happen, bond yields could drop back again, offsetting some of the damage caused by falling share prices. There are, moreover, some areas of the bond universe, such as emerging market government debt, which offer a better risk/reward balance.

Overall, however, it is hard to get enthusiastic about an asset class which offers such low returns relative to the risks investors are accepting at this late stage in the economic cycle, including higher inflation and rising default rates.

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.

PROPERTY

The commercial property sector has once again hit the headlines for the wrong reasons. As in 2016, property funds have struggled with their inherent illiquidity. At the time of writing, an M&G fund remains suspended after finding itself unable to meet redemption requests from investors concerned about the outlook for the retail property sub-sector.

It is not hard to see why enthusiasm for the sector is fragile. Property yields are low (albeit they pay a better income than bonds in many cases) and they are at risk from a return of inflation and a consequent reversal of the Fed's mid-cycle pause. It is true that property can provide a hedge in a gently reflationary environment but against such a backdrop pressures on tenants would increase and the competition from risk-free income sources would be greater.

It's also worth pointing to the increasing focus on sustainability in the sector. Buildings contribute around 40% of global carbon emissions so property owners are going to have to invest more to manage that risk in future. Yields already barely cover the natural depreciation and obsolescence of a wasting asset.

The second risk to the sector comes from international capital flows, which have been a key support thus far, notably from South Korea. If that source of investment capital should dry up, yields would rise and capital values fall.

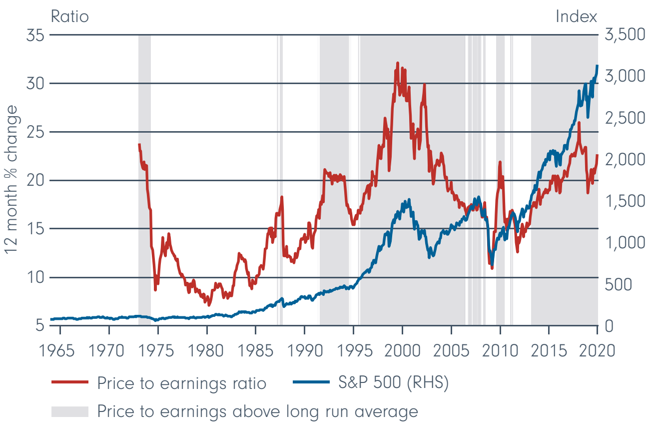
Select 50 recommendations: *The Select 50 consciously avoids open-ended property funds and that stance has been vindicated by recent events. The* ***iShares Global Property Securities Equity Index Fund*** *is a safer way to gain exposure to the sector and continues to provide some diversification benefits to a balanced portfolio. As with bonds, however, now does not feel like the moment to be too gung-ho about real estate.*

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.

Stock markets around the world

US

US: valuations rising but not excessive



Source: Refinitiv, as at 29.11.19.

Past performance is not a reliable indicator of future returns. Overseas investments will be affected by movements in currency exchange rates. Reference to specific securities should not be construed as a recommendation to buy or sell these securities and is included for the purposes of illustration only.

The past ten years have been a golden age for investors in the US stock market. Wall Street has led the pack throughout the long economic and market upswing from the dark days of the financial crisis. It has rarely paid to underestimate the US; being underweight the S&P 500 in recent years has been a painful misjudgement.

But that is all in the past now. Whether you are sitting on strong US profits or bemoaning a missed opportunity, the only thing that matters is what happens now. Can Wall Street continue to outperform or is it time to hand on the baton to less popular markets?

With a 29% rise for 2019 in the bag, it is tempting to bail on the US now. And it is certainly easy enough to find reasons to worry. The Presidential election is a risk for a couple of reasons. Either Donald Trump wins and, knowing he only has another four years in the White House, he doubles down on his signature trade war with China. Or a Democrat victory ushers in an investor-unfriendly administration – raising taxes, hiking the minimum wage, regulating finance and breaking up big tech.

Other concerns include the gap between valuations in America and in the rest of the world. The US now accounts for 56% of global market capitalisation and the so-called Shiller PE, which compares share prices with ten years of earnings, not just one, is much higher than for the rest of the world.

But there are reasons to stick with the US too. Credit Suisse recently put a target of 3,425 on the S&P 500 for the end of 2020. That's still 6-7% higher than the current all-time high level. Not a repeat of 2019's stellar run but a perfectly respectable return. This forecast is made on the far from unreasonable assumption that earnings rise by just over 5% next year and the multiple of earnings on which the market trades increases to 19.

Given the continuing support of the Federal Reserve and the likely easing back of trade tensions during the next 12 months of intensive electioneering, none of those numbers looks outlandish. The not insignificant risk is that, as in previous bull markets, the final push to the ultimate market peak is driven by momentum-focused investors extending the lead of the existing winners – the US and in particular the technology stocks that have led the way in recent years.

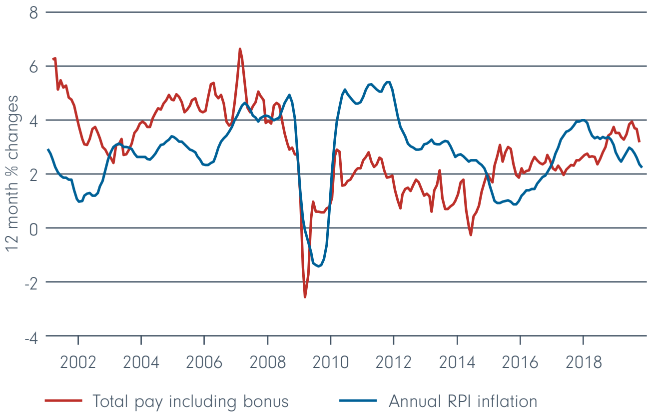
Given the absence of real over-exuberance among ordinary investors in the US, I think we remain some way off that market high. While the risks are clearly rising, it is too early yet to take money off the table.

Select 50 recommendations: *A strong case can be made for not trying to outperform the US market as the vast majority of fund managers actually fail to do so. Exposure at low cost can be achieved via an ETF such as the **Vanguard S&P 500 UCITS ETF**. This fund appears on our Select ETF list.*

*For those who do prefer an active approach, the **JPM US Select Fund** is a solid portfolio of companies that the managers believe can dominate their markets for years to come. The top ten is stuffed full of the kinds of names you would expect: Microsoft, Alphabet, Amazon, Mastercard and Coca Cola are the five biggest.*

UK

UK: earnings outpacing inflation



Source: Refinitiv, as at 15.11.19.

Past performance is not a reliable indicator of future returns.

The direction of travel for the UK is somewhat clearer after the Conservatives' decisive election victory before Christmas, but there remains considerable political, economic and market uncertainties ahead. What is clear is that Britain will leave the EU at the end of this month. What is rather less certain is what our relationship with Europe will look like at the end of the year when the Prime Minister has committed to ending the so-called implementation (or transition) period.

I initially thought that the size of his parliamentary majority would allow Mr Johnson to tack back to the centre ground, request an extension and work towards a softer Brexit that aligned the UK more closely with the EU. This now looks less likely, which is probably a net negative for the UK economy given that a Canada-style free trade deal is estimated by a variety of sources to imply a hit to GDP of anywhere between 5% and 8%.

The good news, however, is that whatever Brexit brings us this year is likely to be less painful than what a Labour government would have served up in the form of higher taxes, nationalisations and expropriation of shareholdings. The possibility of a radical socialist economic agenda had been priced into the UK and has yet to be fully unwound from valuations, which remain cheap on most analysts' models. The significant outflows from the UK market over the past three years will take some time to return.

The outlook for the UK economy is also far from gloomy other than the Brexit hit already discussed. Fiscal stimulus, in particular, looks likely to be part of Johnson's deal with the Red Wall voters who he recognises lent rather than gifted their support at the election. Credit Suisse estimates that the boost could be the largest since the financial crisis. With real wage growth on the up, businesses regaining the confidence to invest and signs of stabilisation in exports to Europe, 2020 might not be such a bad year in the domestic economy.

The direction of sterling remains an important determinant of where to invest in the UK market. It is estimated that a 10% rise in the pound takes around 7.5% off the FTSE 100, which is heavily exposed to exports and overseas earnings. Just 23% of FTSE 100 sales are made in the UK, compared with more than 50% of Euro Stoxx 50 sales in Europe and 65% of S&P500 sales in the US.

Assuming that there is some recovery in the level of sterling this year, domestic stocks may be a more interesting focus than the blue-chips.

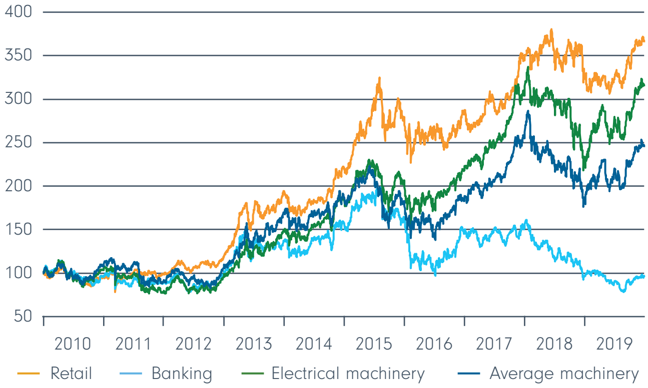
Select 50 recommendations: *The fund that is most obviously focused on the domestic second tier stocks is the **Threadneedle UK Mid 250 Fund**, which as its name suggests invests in companies which are in the Goldilocks size range – big enough to have a reliable track record of growth but with plenty more still to come.*

*We also like the **Liontrust UK Growth Fund**, one of our four fund picks for 2020, which is a mainstream UK equity fund, focused on companies with pricing power, high and sustainable profits and some insulation against economic uncertainty. For investors with a more positive view of the outlook there is probably no substitute for the **Fidelity Special Situations Fund**, a true contrarian portfolio that will benefit from a meaningful return to favour of the UK market.*

JAPAN

Japan: opportunities for stockpickers

Nikkei 500 sectors



Source: Refinitiv, as at 30.12.19.

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.

The Japanese stock market had a good 2019 even if the rise from around 19,000 on the Nikkei to nearly 24,000 did no more than retrieve the ground lost in 2018. Taking a longer view, the eight years since Shinzo Abe was elected as Prime Minister, setting in motion an ambitious national recovery plan, have also been rewarding. Again, however, the gains merely restored earlier losses. Japan remains a frustrating place for long-term investors.

Japan is back on the global radar, in part thanks to Mr Abe's more Western-style leadership. He has forged strong relationships with both Donald Trump and Xi Jinping. The success of last year's Rugby World Cup set the scene for what will almost certainly be a very well-run and welcoming Olympics this summer. Even before these sporting events, inbound tourism is booming. Quite right too. It's a great place to visit.

But what about the stock market from here? We have been positive on Japan for some time, on valuation grounds mainly. Apart from 2018's disappointment, this has been a good call and there remain plenty of reasons to stay positive on the Tokyo market.

First, Japan is a very cyclical economy. It does well when activity picks up, which is our assumption over the next year or so. Second, Japanese shares are still cheap by international comparison, standing at a valuation discount to the global average of as much as 36%. This seems unfair when there are clear signs that Japanese companies are becoming more shareholder-friendly, that earnings-enhancing buybacks are on the increase, fund flows are more supportive (domestically and from foreign investors) and profits forecasts are rising. Third, the government has recently kick-started yet another stimulus package.

There are, of course, reasons to take a more negative stance. There always are in Japan. The recent VAT hike is one of the biggest concerns, although it seems that the impact of the latest tax increase will be less than with previous rises. Offsetting measures have been put in place to ensure the latest squeeze is less damaging.

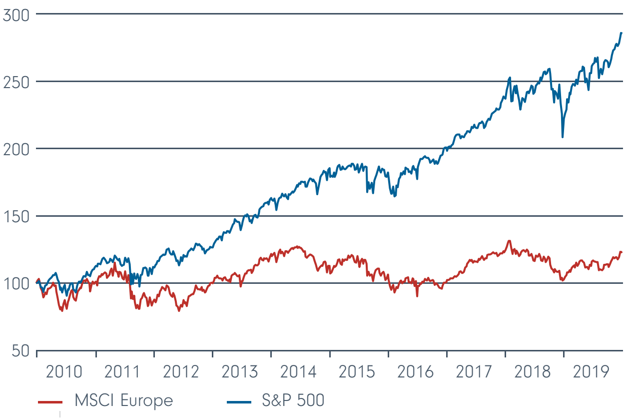
The long-term negatives have not gone away either. Japan's economic growth is pretty stagnant, its population is ageing and shrinking, the labour force is inflexible and the Government is drowning in debt.

For the next year or so, the outlook seems to be set fair. A pick-up in the global economy will favour Japan as much as anywhere and the Olympics boost should help domestic activity too. The challenge is beyond 2020 when Japan will need to make some tough decisions if it is to manage its long-term demographic issues.

Select 50 recommendations: *The Baillie Gifford Japanese Fund performed very well for us in 2019 and we see no reason not to stick with this fund as we move into 2020. The Select 50 also has different options from Lindsell Train and Man GLG. The* ***Lindsell Train Japanese Equity Fund*** *is deliberately non-cyclical so may well underperform in a rising market but should do well longer-term. The* ***Man GLG Japan CoreAlpha Fund*** *is a different beast altogether, a contrarian, value-focused fund.*

EUROPE

Europe: serial underperformer



Source: Refinitiv, 30.12.19.

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 your investment. For full 5 year performance figures please see page 15.

European shares have gone nowhere in the past five years and even since the financial crisis they have been a disappointment, especially when compared with the US. It's not hard to see why this might be the case. The sovereign debt crisis was no sooner solved than trade wars dealt a heavy blow to a region that depends on exports. It is no wonder that Mario Draghi spent eight years at the head of the ECB without ever raising European interest rates.

Well, don't say it too loud, but things may finally be perking up in Europe. In fact, if you strip out the slowdown in car manufacture in the past couple of years, the underlying growth picture actually looks a lot better. If European governments can be prodded by new ECB boss Christine Lagarde into finally spending a bit more (Green infrastructure may be the excuse), then GDP could get a decent fiscal boost too. Political risk is declining in both the UK and Italy.

Despite this more positive outlook, European shares are relatively cheap (although a bit less than they seem thanks to the heavy weighting of traditionally cheap sectors like banks). Germany, in particular, looks attractive on the back of a cyclical recovery with low valuations and improving earnings forecasts. Spain also looks good, with valuations no better than they were at the time of the financial crisis.

Select 50 recommendation: *Given the recovery and valuation attractions of the German market this might be a moment to take advantage of the presence on the Select 50 of a single country fund, the* ***Barings German Growth Trust****, which celebrates its 30th anniversary this year (it was launched at the time of reunification in 1990). A more generalist European fund is* ***Jupiter European Special Situations****, managed by Cedric de Fonclare. We also like the* ***TM CRUX European Special Situations Fund****.*

ASIA AND EMERGING MARKETS

The flip side of America's outperformance in the years since the financial crisis has been the underperformance of emerging markets. Worries about a slowdown in China, trade tensions and the strength of the dollar have led to the investment class becoming unfairly cheap. This is particularly so when you consider that many of the tactical supports for emerging markets are looking much stronger today – things like economic momentum, earnings forecasts and fund flows.

A key determinant of the outlook for emerging markets is the dollar. When emerging market currencies appreciate against the dollar this tends to be good news for their equity markets thanks to the impact a stronger currency has on inflation and interest rates. A strong currency also reduces the cost of servicing dollar-denominated debts. As dollar weakness now seems likely thanks to the US's more accommodative monetary policy, this could be an interesting time to move back into emerging markets.

Other attractions include depressed valuations, where relative to developed markets shares are as cheap as they have been since the Asian crisis 20 years ago. On a long-term view, it seems plausible that emerging market shares could outperform the US. It has been a long time since anyone has seriously thought that likely.

Another factor to bear in mind is the improvement we are seeing in corporate governance and economic reforms across the Asian region, both developed and emerging. India, for example, is experiencing extensive reforms, including cuts to corporation tax and the creation of a more business-friendly environment.

All of this is the icing on the cake of a long-term secular growth story which is seeing the emergence of a more affluent middle class, consuming popular local brands across a range of categories including food and luxury goods.

Select 50 recommendations: *One of our four fund picks for 2020 is the* ***Artemis Global Emerging Markets Fund****, a relative newcomer to the Select 50. Managed by a former Fidelity analyst, Raheel Altaf, the Artemis fund is focused on growth shares available at a reasonable price. The growth and valuation approach is refined further by looking for situations where there is a clear catalyst for an upward re-rating.*

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 December 2019)	2015	2016	2017	2018	2019	Morningstar Fund Rating
ASIA AND EMERGING MARKETS						
Artemis Global Emerging Markets	-	37.7	26.0	-7.7	14.0	★★★★
Fidelity Funds – Asian Special Situations	-	28.7	30.2	-8.7	17.1	★★★★
Maple-Brown Abbott Asia Pacific ex Japan	-4.3	28.2	20.7	-10.3	9.8	★★
Merian Asia Pacific	-3.1	32.1	38.5	-12.7	13.2	★★★★
Stewart Investors Asia Pacific Leaders	1.9	19.6	13.5	5.4	3.8	★★★★★
BONDS						
ASI Global Inflation-linked Bond	-1.2	9.7	1.8	-1.7	6.6	★★★★
Barings Global High Yield	-	-	6.3	-4.1	11.7	★★★
Fidelity MoneyBuilder Income	-0.5	8.8	4.9	-2.4	9.6	★★★
Fidelity Strategic Bond †	-1.0	5.7	4.7	-3.5	10.2	★★★
Invesco High Yield	-1.2	7.9	9.4	-4.5	14.9	★★★★
JPM Global High Yield Bond	-5.5	13.7	6.5	-3.7	12.8	-
Jupiter Strategic Bond	1.2	7.4	4.4	-1.0	8.3	★★★★★
M&G Corporate Bond	0.1	8.6	5.3	-2.5	11.3	★★★
M&G Optimal Income	-0.9	8.1	5.8	-3.3	9.0	★★★★
Royal London UK Government Bond	0.1	9.0	1.7	-0.1	6.7	★★★

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 December 2019)	2015	2016	2017	2018	2019	Morningstar Fund Rating
EUROPE						
Baring German Growth	14.0	20.8	26.7	-22.7	18.5	★★★★★
Fidelity Funds – European Growth	-	24.5	11.9	-7.9	17.7	★★★
Invesco European Equity Income	6.3	21.4	14.2	-11.9	10.3	★★
JOHCM European Select Values	6.4	23.1	14.6	-13.3	1.8	★★★
Jupiter European Special Situations	10.2	12.9	16.2	-15.0	20.1	★★★
TM CRUX European Special Situations	13.2	21.4	20.8	-15.2	21.0	★★★★
GLOBAL						
BNY Mellon Long-Term Global Equity	5.8	26.1	13.8	2.7	24.8	★★★★
Fidelity Global Dividend	9.0	22.6	6.6	2.2	20.5	★★★★★
Fidelity Global Special Situations	10.8	27.9	16.9	-6.5	22.3	★★★★
Invesco Global Equity Income	5.8	22.8	12.7	-9.2	20.0	★★★
Rathbone Global Opportunities	15.6	16.8	20.1	-0.5	26.3	★★★★★
JAPAN						
Baillie Gifford Japanese	11.9	33.9	26.6	-12.6	18.5	★★★★★
Lindsell Train Japanese Equity	29.8	26.4	24.7	0.7	16.1	★★★★★
Man GLG Japan CoreAlpha	18.2	32.4	10.8	-9.5	7.5	★★
NORTH AMERICA						
JPM US Equity Income	2.3	36.8	7.0	-0.4	22.9	★★★★★
JPM US Select	5.2	32.6	9.7	-1.7	28.5	★★★★
Lazard US Concentrated Equity	-	-	7.1	-1.9	29.7	-
Merian North American	7.7	36.8	12.4	-3.8	21.1	★★★★
Schroder US Mid Cap	6.7	42.1	5.8	-6.7	25.7	★★★★

STANDARDISED PERFORMANCE DATA (%) OVER THE PAST FIVE YEARS

% (as at 31st December 2019)	2015	2016	2017	2018	2019	Morningstar Fund Rating
UK						
Fidelity Special Situations	12.3	14.4	15.4	-13.5	21.7	✪✪✪
Franklin UK Equity Income	5.5	15.3	12.0	-8.9	23.7	✪✪✪✪✪
JOHCM UK Equity Income	1.1	16.8	18.2	-13.1	20.2	✪✪✪✪
Lazard UK Omega	-	16.6	13.7	-14.1	16.9	✪✪
Liontrust UK Growth	9.6	18.1	14.2	-6.1	19.9	✪✪✪✪✪
Majedie UK Equity	-0.3	21.3	6.2	-9.6	14.3	✪✪✪
Threadneedle UK Mid 250	20.0	-2.9	27.6	-19.2	28.8	✪✪
ALTERNATIVES						
Foresight UK Infrastructure Income	-	-	-	6.9	19.5	-
Invesco Global Targeted Returns	1.6	3.6	1.3	-3.8	3.4	-
Investec Global Gold	-18.7	84.1	0.0	-0.6	37.1	✪✪✪✪✪
iShares Global Property Securities Equity Index	4.4	23.8	1.6	0.1	17.7	✪✪✪✪
Jupiter Absolute Return	5.9	10.2	-2.6	-0.1	-6.2	-

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 31.12.14 to 31.12.19. 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 2020E	Dividend yield 2019E
Shares		%
US	18.4	1.8
Europe	14.4	3.6
UK	13.0	4.7
Japan	14.5	2.3
Asia Pac ex Japan	14.0	2.9
Emerging Market Asia	13.3	2.4
Latin America	13.4	3.1
Central East Europe, Middle East & Africa	9.7	4.5

	Redemption Yield
Bonds	%
ML Global High Yield	5.7
German 10-Year Bunds	-0.2
ML Global Corporates	2.3
UK 10-Year Gilts	1.2
US 10-Year Treasuries	1.9

INVESTMENT PERFORMANCE AT A GLANCE

% (as at 31st December)	3 m	2015	2016	2017	2018	2019
Shares						
S&P 500	9.1	1.4	12.0	21.8	-4.4	31.5
FTSE All Share	4.2	1.0	16.8	13.1	-9.5	19.2
FTSE 100	2.7	-1.3	19.1	12.0	-8.7	17.3
FTSE 250	10.4	11.2	6.7	17.8	-13.3	28.9
Euro STOXX	5.2	7.3	4.7	10.1	-11.3	29.3
Shanghai SE	5.0	9.3	-12.3	6.6	-24.6	22.4
Shenzhen	10.8	7.6	-20.2	23.4	-21.6	28.0
MSCI Emerging Markets	11.9	-14.6	11.6	37.8	-14.2	18.9
Nikkei 225	8.9	11.0	2.4	21.3	-10.3	20.7
TOPIX	8.6	12.1	0.3	22.2	-16.0	18.1
MSCI World	8.7	-0.3	8.2	23.1	-8.2	28.4
MSCI Europe	8.9	-2.3	0.2	26.2	-14.3	24.6
MSCI Asia	11.9	-8.9	5.8	42.1	-14.1	18.5
Bonds						
US 10-Year Treasuries	-1.9	1.0	0.9	2.1	-0.1	9.5
UK 10-Year Gilts	-6.0	0.3	16.9	3.3	0.5	11.5
German 10-Year Bunds	-3.8	0.2	5.3	-0.3	3.3	5.0
JPM Emerging Markets Bond Index	3.4	1.8	9.6	8.3	-5.3	12.6
ML Global High Yield	3.4	-4.2	14.8	10.2	-3.3	13.7
ML Global Corporates	1.8	-3.8	4.3	9.3	-3.5	11.4
Commodities						
CRB Commodities Index	7.2	-23.4	9.7	1.7	-10.7	11.8
Crude Oil (Brent)	8.9	-34.3	51.1	15.1	-20.2	24.8
Gold Spot	3.3	-10.9	7.8	12.8	-2.8	18.0
LME Copper	8.0	-26.1	17.4	30.5	-17.5	3.4
GSCI Soft Commodities	10.9	-7.5	8.5	-12.4	-16.6	1.2
Silver	5.0	-12.7	14.0	5.8	-10.2	13.9

Source: Refinitiv, 31.12.19. in local currency terms. Valuations: Source Citigroup Global Equity Strategist – Citi Research, MSCI, Worldscope, FactSet Consensus estimates as at 19.12.19. Bond Yields: Source Refinitiv, as at 31.12.19.