INVESTMENT OUTLOOK

Fidelity Personal Investing's market and investment view

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- 2020: year of the virus
- Markets price in recession....
- ... but rapid recovery too
- What are the long-term consequences?

April 2020

"Never before has the outlook for investors changed so dramatically or so quickly. But this is not a re-run of the financial crisis, and recovery could be swift too."

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	☑	▶	The odds are stacked in favour of a decent return over the medium to long term after recent sharp falls. Best to drip money into the market.
Bonds	⊟	▲	Bonds have been a better diversifier than we thought three months ago. Yield curve management makes a bet against central banks a risky strategy.
Property	☒	▶	Lockdown is a terrible backdrop for property owners who are only as strong as their tenants. Cashflow and the survival of occupiers are key.
Commodities	☑	▲	Oil looks oversold on supply fears and gold is a traditional safe haven in uncertain times. Industrial metals are the asset class's weak spot.
Cash	☑	▶	The value of some cash in a portfolio was underlined by the recent indiscriminate sell-off. Having some dry powder is essential at such times.

Regions	Current View	3 Month Change	
US	⊟	▶	The US came into the Corona-crisis on a high valuation, and it will be hit hard by lockdown. A V-shaped recovery could see shares bounce.
UK	☑	▶	The UK was cheap before the outbreak and it is cheaper now. How low dividends fall will be key to assessing an income-focused market.
Europe	☑	▶	European shares have largely priced in a sharp fall in profits this year. This improves the chance of a good return in the region.
Asia Pacific ex-Japan	☑	▶	Asia was first into the crisis and will be first out. Business is getting back on its feet in China. India is further behind and faces a tough lockdown.
Japan	⊟	▶	The long-term problems remain; the short-term has obviously got worse. But balance sheets are strong and valuations undemanding.

Current View: ☑ Positive ⊟ Neutral ☒ Negative

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

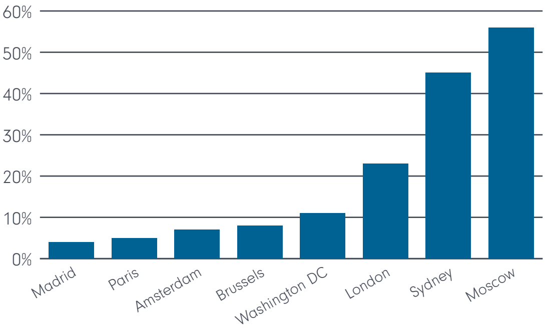
For more market data including full 5 year performance figures see page 15 ▶

Q1 in three charts

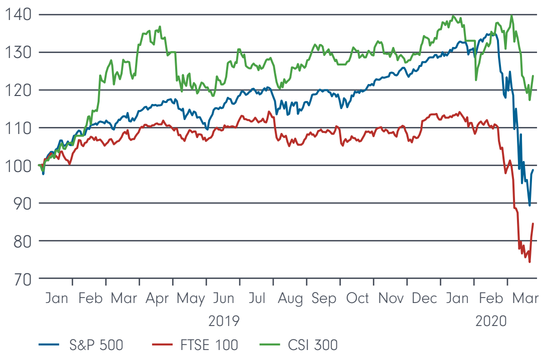
The world goes into lockdown

A summary of the first quarter in charts could hardly ignore the coronavirus outbreak but how to illustrate something for which the data (most of which is backward-looking) is only just starting to emerge? This chart shows the devastating impact that lockdowns in many parts of the world have had on the freedom of movement that we took for granted until this year. In the European epicentre of the outbreak (at the time of writing), normal life has essentially been put on hold. The decision to impose draconian social distancing measures in order to slow the spread of Covid-19 and therefore to protect the ability of health services to cope with spiralling numbers of cases is having a profound impact on the global economy. It is this which will dominate next quarter's charts as it becomes clear how deep and how long the inevitable recession is.

Journeys on 23 March as a percentage of normal levels



Source: Refinitiv, as at 23.3.20



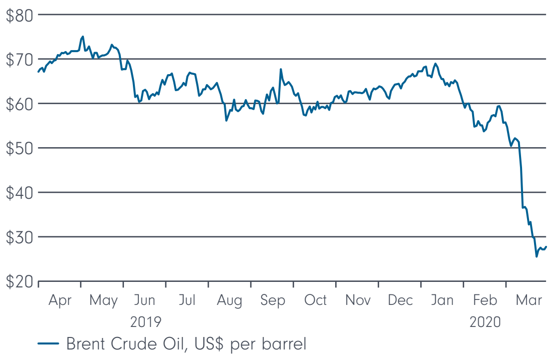
Source: Refinitiv, as at 31.3.20, with income reinvested

The benefits of diversification

The market impact of the outbreak has, unsurprisingly, been dramatic. After a period of denial in the first six weeks of the year, the penny dropped in late February that this was not a problem that could be contained in a part of China that many people had not even heard of. In recent weeks, markets have tended to move in lockstep as it has become clear that we are all in this together. However, take a step back to the beginning of 2019 and the difference in performance since then is striking. China was pulling out of the crisis before the rest of the world had cottoned on to what was happening. Meanwhile the UK entered the outbreak in a weaker position, already worrying about a year of anticipated Brexit-related angst. The US has roughly retreated to where it started last year. As ever, diversification can help to smooth the investment journey.

Oil: a two-edged sword

The unsung story of the first quarter has been the collapse in the oil price. Obviously, this is related to the coronavirus outbreak – demand destruction (as a result of the grounding of many aircraft and industrial shutdowns) is one side of the oil price equation. But the major oil producers are also shooting themselves in the foot by ramping up supply in the face of falling consumption. It is hard to fathom how Saudi Arabia and Russia think that their opportunistic assault on North American Shale can end well. But there is at least a partial silver lining to the oil price cloud – cheaper energy and fuel will be a key contributor to recovering economic activity once the outbreak is finally contained. For businesses where energy is a significant input cost, the low cost of crude is a small but significant consolation in an otherwise difficult environment.



Source: Refinitiv, as at 31.3.20

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: One of the good things to have come out of the corona-crisis, and the enforced working from home arrangements forced on companies like Fidelity, is a general increase in the sharing of ideas between isolated groups of investors and analysts. The views in this report are derived from a variety of sources within and outside Fidelity International. They are based on the house view of the Fidelity investment team, overseen by Paras Anand, Anna Stupnytska and Wen-Wen Lindroth. However, the report is written for a UK personal investing audience and the ideas are explicitly linked to the Select 50 list of our preferred funds. We consider this to be the best way for our investors to implement the ideas discussed in the Outlook. I would like to thank, in particular: Jeremy Osborne, investment director in Tokyo; Leigh Himsworth, portfolio manager; Ayesha Akbar, portfolio manager; Bill McQuaker, senior adviser; Neil Cable, head of real estate; Andrea Ianelli, fixed income investment director; and Natalie Briggs, Europe investment director.

In focus: what does Coronavirus mean for our investments?

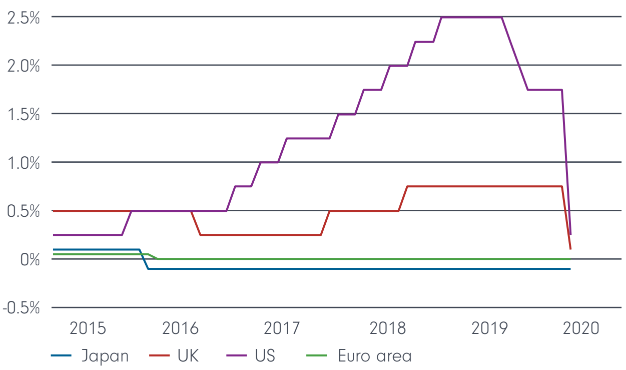
The coronavirus outbreak is a fast-paced story, hard to keep up with in real time, let alone write sensibly about in a document designed to have a longer shelf-life than the next day or so. Because of that I want to look in a broad-brush way at what we can learn from this catastrophic event: how the authorities have reacted; what the economic implications are; how the current market situation compares with other bear markets; what the longer-term implications may be; who could be the winners and losers; and how we should respond as investors. Finally, I will revisit my New Year fund picks.

On a war footing

The government and central bank response, around the world but notably in the US, has been unprecedented. The $2trn fiscal stimulus package that the US Congress finally agreed is roughly two and a half times the size of the Obama measures in 2008 and should be easily funded thanks to the Federal Reserve's implementation of 'QE infinity'. The government can spend what it likes to protect businesses and individuals because the Fed has promised to buy any bonds it issues, keeping a lid on yields in the way that Japan has been managing its borrowing costs for some time now. Here in the UK, new Chancellor Rishi Sunak has been equally bold, acting as an essentially unconstrained backstop for however long it takes.

So, lessons have been learned from the financial crisis: decisive action, performed at pace and without limit. What matters now is that the money gets where it is needed without delay. The chart below shows one aspect of the policy response – interest rates are back to zero, a dozen years after they were taken there as an 'emergency' measure. It is hard to see them getting off the floor for a long while to come.

Interest rates fall back to zero



Source: Refinitiv, as at 31.3.20

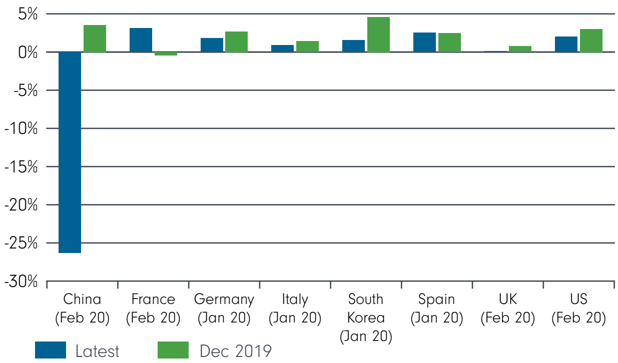
Past performance is not a reliable indicator of future returns. Overseas investments will be affected by movements in currency exchange rates.

Global recession: how deep, how long?

So, the key question, now the authorities have acted, is whether the monetary and fiscal measures they have taken will be enough to offset the inevitable recession that suppression of the outbreak will cause. Shutting down the global economy for even a short period is unprecedented and no-one really knows how long and how deep the downturn will be. The early signals are not encouraging as the chart below shows. The collapse in Chinese retail sales during its February lockdown offers a template for all the other countries which have adopted this radical approach to containing the disease.

GDP forecasts are changing so quickly that they will soon be out of date. More important is the speed of the rebound. The hopes for a V-shaped economic recovery that we hung onto in the 'denial' phase are probably too optimistic, although the speed with which China has started to get back to work suggests that the rebound may yet surprise us. Unlike with a natural disaster (such as the 2011 Fukushima earthquake and tsunami) the supply-side infrastructure remains intact and demand for many goods and services should be resilient.

China retail sales show the way ahead



Source: Refinitiv, as at 31.3.20. 12-month percentage change

Overseas investments will be affected by movements in currency exchange rates. Investments in emerging markets can be more volatile than other more developed markets.

Learning from history

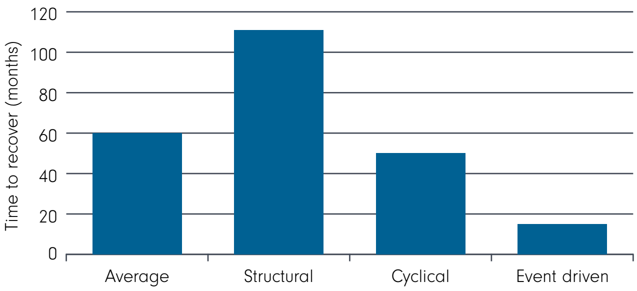
Moving onto the market response to the health and economic crises, we have suffered one of, if not the, most savage bear markets of our lifetimes. Certainly, the speed of the drop is unprecedented. Figures from Goldman Sachs suggest that the 22 days it took for the S&P 500 index to fall by 20% (the commonly accepted definition of a bear market) has never been beaten. It was faster than in both 1929 and 1987.

When it comes to comparisons with previous bear markets, some hope can be gleaned from history. In the same note, Goldman's strategist Peter Oppenheimer categorised all the bear markets since the early 1800s as structural, cyclical or event-driven. Which bucket the latest fall sits in may decide whether this is a deep slump from which recovery is painfully slow or a short and relatively sharp drop from which we rapidly get back to business as usual.

Structural bear markets, triggered by financial imbalances and bubbles, are the deepest and longest. On average, they have seen a 57% peak to trough decline with a 111-month recovery to the previous high as the chart below shows. By contrast, cyclical bears, caused by the dampening effect of rising interest rates, tend to see a 31% drop and are done and dusted in 50 months. By far the most benign type of bear market is the event-driven one, caused by war or a commodity price shock or technical dislocation in markets. These fall by 29% on average and bounce back within 15 months.

We don't know which template this bear market will follow but it feels more event-driven than structural or cyclical. Let's hope so.

Event-driven bear markets recover quickly



Source: Goldman Sachs, March 2020. Performance of S&P 500

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Long term implications

Looking further into the future, it is worth considering what some of the longer-term implications of coronavirus might be. Here are a handful of ideas:

- **Tax.** Corporate tax rates have fallen in recent years. That process will probably reverse as governments seek to recoup some of the money they will borrow and spend this year. The way that the 2017 US tax cuts were diverted into share buybacks won't be accepted this time around.
- **Regulation.** The return of interventionist governments suggests that the era of de-regulation is over. Companies will be pushed towards more socially beneficial behaviours. This is probably a good thing, but it will come at a cost to shareholders.
- **Inflation.** Rising prices will not necessarily follow a big uptick in government spending. They will only do so once end-consumer demand and company investment use up the current slack in the economy. But longer-term, I see a return to a more inflationary environment.

Sector winners and losers

Who might some of the winners and losers be in future? My initial thoughts are that the way we work has changed irrevocably. Many service sector companies will realise that they can operate effectively with many more staff working remotely. That will fuel demand for robust data and communications systems. Technology and telecoms will be strong growth areas. So, too, will healthcare. The underinvestment in the NHS will most likely be reversed.

Areas that have been hard hit but may bounce back quickly include industrials and miners, which will get back to work quickly. Retail should, on the face of it, do the same but the sector was in dire straits before the virus struck and its structural problems will still be there on the other side of the outbreak. Travel and hospitality businesses will be OK as long as they can get through the shutdown – hence the vocal demands for help from the airlines. The area that looks challenged long-term is financials. With interest rates remaining on the floor, it will be hard for banks to make money.

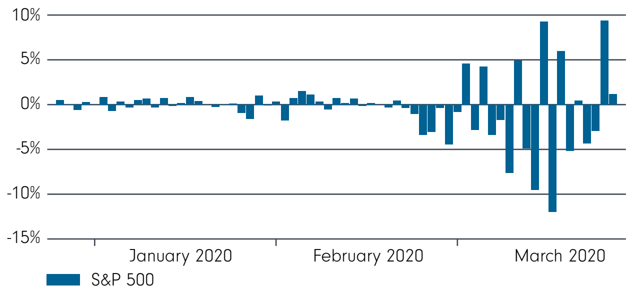
Managing through volatility

Markets have been unbelievably volatile in the past month or so. As the chart here shows, we have seen spectacular rises and falls in the S&P 500, often on consecutive days. This is how markets work at times of peak uncertainty and the unpredictability of these gyrations is why we always say: 'time in the market is better than timing the market.'

Here are a couple of other good reasons to stay invested:

- A lot of bad news is now priced into the market. If things turn out to be better, or even no worse, then markets could rebound quickly. Many investments are oversold and cheap. In some cases, the question is binary – if a company survives, its value will rise sharply from here. By contrast, almost nothing is overvalued today.
- Selling today is an easy decision; knowing when to buy back is much harder. You will almost certainly leave it too late. The best returns in the market cycle are made when things start to look just a bit less bleak.

Unprecedented volatility



Source: Refinitiv, as at 31.3.20. Daily percentage change for S&P 500

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Fund recommendations

Finally, I'd like to revisit the fund recommendations I made at the beginning of the year. I said I would do this every quarter, and no-one would be impressed if I only did so when the picture is prettier than it is today. First, let's remember what the world looked like in December. The expectation was that lower interest rates and a cessation of hostilities in the trade war would allow earnings to continue growing in 2020 as recession was pushed back by another year at least.

Of course, the world has changed completely since then but my thinking hasn't altered much. I was cautiously optimistic three months ago, conscious that after a very strong 2019 markets might give something back. For that reason, I stuck to two defensive fund choices from last year, ***Fidelity Global Dividend*** and ***Fidelity Select 50 Balanced***. My new picks were in markets which I thought had potential to return to favour, ***Liontrust UK Growth*** and ***Artemis Global Emerging Markets***.

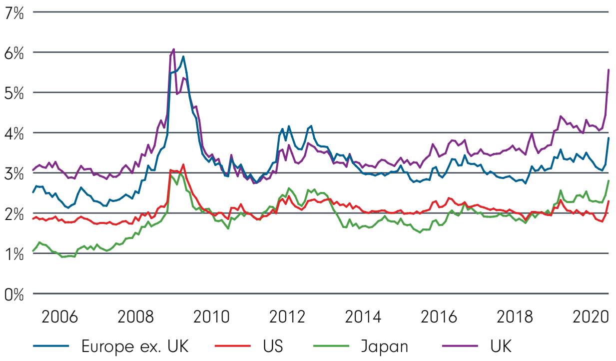
The two defensive picks have done what I would have hoped, falling much less than global markets as a whole. The UK and emerging markets funds have been broadly in line with their respective benchmarks.

It is early days. What is more important is that I remain convinced by all four funds and have invested in all of them personally.

Asset classes

SHARES

Dividend support may be an illusion



Source: Refinitiv, as at 31.3.20

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The shock to global stock markets from the coronavirus outbreak has been in line with previous event-driven bear markets in terms of how far shares have fallen. What is different from earlier corrections is the speed of the fall.

The outlook for shares from here depends on a handful of different factors coming together to allow markets to stabilise. First, we will need to see signs that massive fiscal and monetary support is sufficient to prevent knock-on economic shocks. Second, we need to see progress on the medical front. The rate of infections peaked and fell away quickly in Asia, but we do not yet know how closely Europe will follow the Chinese and South Korean template. As for the US, there remain considerable doubts about the trajectory of the disease in a country which does not benefit from either China's ability to enforce social behaviour nor Europe's relatively well-funded and universal healthcare.

Third, we need to get a better sense of the scale of the economic damage caused by the economic shutdown. Markets have priced in a sharp but relatively short slowdown. If this is how things pan out, the bad news may be in prices already. If the US's economic hit is greater than expected, it may not be.

Finally, we need to see valuations reach a level at which investors decide they are being compensated for the risks. The evidence here is mixed. In Europe, for example, the implied premium that investors are demanding for investing in shares is higher than it has ever been. In the US, by contrast, shares stand at only average multiples of earnings.

Cheap valuations are a necessary but not a sufficient reason for markets to rally. But having fallen this far, so quickly, the odds are stacked more in favour of a decent return than they were. Goldman Sachs says that returns over a 12-month period are usually positive when valuations are at today's levels. It admits, however, that its analysis is far less reliable over shorter periods.

In other words, we face the prospect of continuing volatility in the short-term, when sentiment and technical factors are more important drivers than fundamental value. This confirms the adage that the stock market acts as a 'voting machine' in the short run and a 'weighing machine' only over longer periods.

One of the biggest unknowns is what will happen to dividends this year. The income yield from shares is a key stabilising influence on their price but only if the dividends can be relied upon.

Select 50 recommendations: *This is not a time to be hero, trying to catch the bottom of the market. We recommend sticking to established, defensive and well-managed funds like* ***Rathbone Global Opportunities****,* ***Fidelity Global Dividend*** *and* ***Fidelity Select 50 Balanced****. And to drip money into the market regularly for a smoother ride.*

COMMODITIES

The price of industrial commodities and oil are both closely linked to the outlook for economic activity. Clearly, the prospect of a painful recession, even a short one, is not good for the asset class as a whole.

Within the industrial commodities space, big changes in supply are not easy to effect quickly so demand is the main driver of price. Unsurprisingly, we have seen a big fall in some of the bellwether metals like copper, which is more than a quarter cheaper than it was at the start of the year. Zinc has fallen by a similar margin.

Oil is a bit more complex because its supply is subject to political interference. This year has been no exception. Saudi Arabia and Russia have for some time been restraining their production to put a floor under the oil price but a few weeks ago they both abandoned the fight to keep the cost of crude high. There is clearly a strategic interest for both in squeezing their new rival, North American Shale, but it is a high-risk gamble.

This might make oil an interesting speculation at the current level around $30 a barrel but backing a rise in the price ahead of a nasty recession is a brave call.

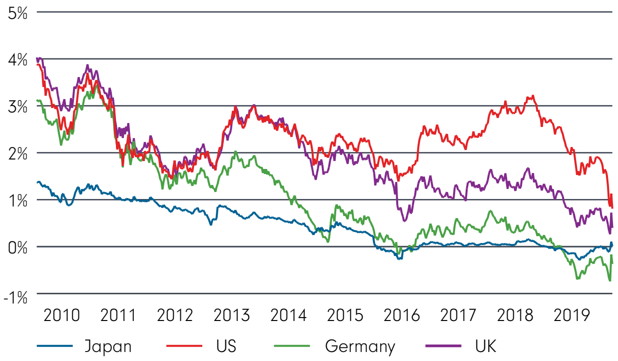
The other main commodity we track is gold. This, too, has had an interesting few weeks. Traditionally a safe haven at times of stress, gold has been extremely volatile recently. Unusually, it fell sharply alongside riskier assets like shares on some of the worst days in the markets last month. This probably reflected forced liquidations. When shares, bonds and gold all sell off together it is a sign that people are selling what they can, not what they want to.

If inflation does in due course follow in the footsteps of higher government spending, then gold could well be a very interesting investment.

Select 50 recommendations: *You can get exposure to gold in a number of ways, including owning the metal itself, directly or via an exchange traded fund (ETF). Alternatively, a rising gold price should be reflected, and magnified, in the rising share prices of gold miners. The* ***Investec Global Gold Fund*** *is the preferred exposure to this on the Select 50.*

BONDS

Government bonds are pricing a deep recession



Source: Refinitiv, as at 31.3.20

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Fixed income markets have priced in a big recession this year. This has been good for safe government bonds, notably US Treasuries, which have been the go-to safe haven investment for nervous investors.

For other parts of the fixed income market, however, expectations of economic distress have not been such good news. The more heavily-borrowed parts of the economy have seen a sharp rise in default expectations. In order to compensate investors for this greater risk, the gap between the yields on lower-quality corporate bonds and safe government bonds has widened significantly.

The decisive nature of the authorities' response – fiscal stimulus and supportive central banks – is both good and bad news for bond investors. The greater willingness to act of governments and central banks makes a damaging and long-lasting recession less likely. Keeping people in work has rightly been identified as a key priority.

The downside of this response is the ballooning of deficits it implies. Most countries, even fiscally conservative ones like Germany, have put their concerns aside for now. There is no price that is seen as too high. The usual consequence of higher borrowing is rising bond yields. But that would only make things worse, so central banks are being enlisted to keep a lid on yields.

Japanese-style yield-curve management (keeping yields pegged at a desired level) now looks likely in other countries too. This makes it risky to bet against government bonds. You are essentially taking on the Fed – never a sensible course of action.

Bonds have provided ballast for investors' portfolios. Diversification of assets really is just as important as geographical balance. As for different parts of the fixed income universe, there are signs that value is emerging in the most beaten up areas of corporate bonds too.

Select 50 recommendations: *With prices so volatile and opportunities emerging across fixed income, we continue to recommend handing the asset allocation decisions to the experts. The* ***Jupiter Strategic Bond Fund*** *is a good generalist fund.*

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

Property owners are only as strong as the tenants occupying their buildings and the survival of many of these will be under threat in the coming weeks. This is why co-ordinated monetary and fiscal support all around the world is so important and welcome.

Inevitably, tenants are already starting to approach their landlords with requests for reductions in rents or deferrals of payments. This is particularly the case with businesses at the sharp end of retail and leisure. Property owners have to decide whether to accept short-term pain as the price of longer-term income security.

Values will probably not move much if the hiatus is seen as a one- or two-quarter affair. Surveyors rely on comparable evidence and, with no deals being done, there is none. The long-term reason to hold property remains intact so many investors will want to stay put. If they need money quickly to cover losses elsewhere, they are anyway unlikely to find it in an illiquid asset class like real estate.

The difficulty in unwinding property investments quickly has, once again, illustrated the unsuitability of open-ended funds for this asset class. A number of funds have closed the door to new investments and redemptions. I would expect the regulators to move to eliminate this mismatch between daily-dealing funds and illiquid underlying holdings before too long.

Longer term, it feels like inflation may well return to become a factor in the real estate market. A little bit of this is no bad thing. Property can be a useful hedge against rising prices. Too much would be damaging as it would to all investments.

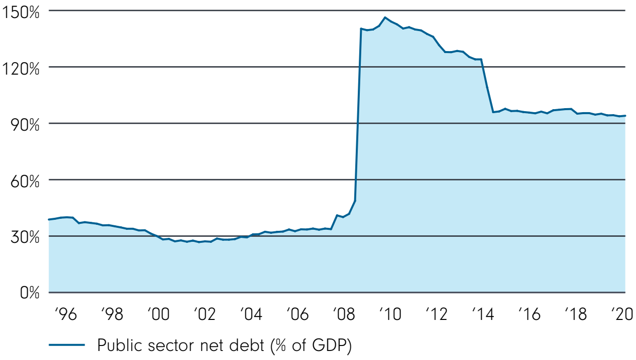
Select 50 recommendations: *Because of the liquidity challenges of open-ended funds, the Select 50 has always preferred to gain exposure to the asset class through a passively-managed fund of real estate investment trusts (REITs). The* ***iShares Global Property Securities Equity Fund*** *tracks the performance of a basket of these investments from around the world so it has the added benefit of geographical diversity.*

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

UK

Government debt is poised to rise again



Source: Refinitiv, as at 31.3.20

Past performance is not a reliable indicator of future returns.

The UK stock market entered 2020 with some hope that the worst of the Brexit mess was behind it, a new government with a majority to push through a more populist agenda and some valuation attractions. That optimistic outlook would not see February out, unfortunately. The London market was clobbered along with every other developed market as the epicentre of the corona-crisis shifted from Asia to Europe.

The new Chancellor Rishi Sunak has moved decisively to shore up the British economy, with an unprecedented package of fiscal support measures to help businesses and individuals survive the current lockdown. Meanwhile the Bank of England has stood behind the government's efforts, cutting interest rates to a historic low of just 0.1%.

The measures to protect the domestic economy are of more relevance to the performance of the smaller capitalisation indices in our home market because the blue-chip stocks are extremely international and dependent on the health of the global rather than the UK economy. In practice, however, there has been little to distinguish between the FTSE 100 and FTSE 250. The selling has been across the board.

One of the most attractive features of the UK stock market has always been its high dividend yield. In an environment of lower for longer interest rates, an income of 4% or more from a portfolio of high-quality multi-national businesses was always going to provide support to the FTSE 100. Since the recent slide in share prices, that yield support has become even more apparent. But apparent is the operative word here – the trickle of companies warning that they will not deliver their promised dividends is turning into a flood and the stated yields now need to be taken with a large pinch of salt.

There are areas of interest to investors, of course. When I spoke recently to Leigh Himsworth, manager of the Fidelity UK Opportunities Fund, he told me that the first thing he did when he realised the seriousness of the outbreak was to buy all the main supermarket shares. As well as the obvious – fighting in the aisles for toilet roll – he saw an ongoing competitive advantage as money that could no longer go on eating-out headed the grocers' way.

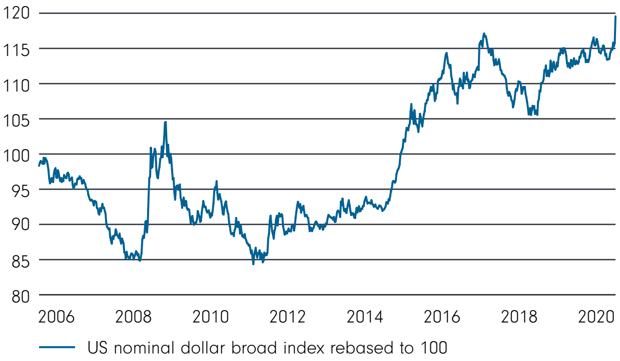
Further out, there will be opportunities in telecoms and technology as we all get used to the idea of working from home and companies see how much money it can save them. Healthcare could thrive, too, as no government is now going to want to be seen to be jeopardising the ability of the NHS to cope with another pandemic. Alternative energy shares could benefit from a desire to reduce dependence on Saudi Arabia and Russia, who have been happy to pile an oil price shock on top of the world's other problems.

The UK stock market is cheap versus history and other markets, with the FTSE 100 trading on less than 12 times this year's expected earnings and the FTSE 250 on less than 11. The 6% yield for the blue-chips and 5% for the second-tier stocks is probably overstating it, but does leave a considerable cushion in case of further dividend reductions.

***Select 50 recommendations:** At the start of the year I made the **Liontrust UK Growth Fund** one of my four fund picks for the year and I stand by this fund. I like the managers' focus on pricing power, the competitive advantage that leads to higher profits in the long run. The balanced style of the fund, leaning neither towards the growth nor the value style, is another plus.*

US

US dollar remains the go-to safe haven



Source: Refinitiv, as at 31.3.20

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The US was the last significant country to enter the crisis and how it is affected by it is perhaps the hardest to call. Unlike the Asian countries, where suppression was handled with ruthless efficiency and high levels of compliance, it remains to be seen how well America will respond to its lockdown. Already discordant notes have been struck from 'realists' questioning whether the expected loss of life justifies the shutting down of the world's biggest economy.

Secondly, the absence of both widespread safety nets, such as sick pay or a national health service, means the trajectory of the outbreak could be very different from that in Europe where these have ensured good compliance with draconian measures.

What is certain is that the US economy will take a massive hit this year. Credit Suisse estimates that GDP will fall by around 12.5% in the second quarter, after a 1.5% drop in the first three months of the year. There will be a rebound from the third quarter on, but GDP for 2020 as a whole will be slightly negative. By comparison, it is worth noting that the worst quarter in the financial crisis of 2008 saw GDP fall by 8.5%.

The impact on corporate earnings will be dramatic. Earnings will fall by a forecast 24% in 2020 but should bounce back by 20% in 2021. This is a very different trajectory from that in the financial crisis years, when earnings also fell sharply but recovered more slowly as the credit crunch damaged the financial plumbing of the economy and smashed business and consumer confidence.

The good news is that the government and central bank have moved swiftly and massively to support the economy. Although there was the usual Republican/Democrat wrangle (just like in 2008 with the passing of the TARP support bill), a $2trn stimulus package was eventually thrashed out. Thanks to the Fed's determination to buy unlimited amounts of Treasuries and corporate bonds, the government's largesse can be easily funded. As the chart shows, there is still plenty of demand for US dollar assets so America has no concerns about overseas investors supporting the rapid growth in its borrowings.

Getting money where it is needed is crucial for an economy without European-style safety nets, not least because without financial security there will be little incentive for workers to comply with instructions to shut down their economic activities. The devil will be in the detail of delivering support. Promising the big number is probably the easy bit.

The market reaction to the unfolding crisis has been swift and unprecedented. The S&P 500 fell by more than a third from its February peak. The drop was the fastest ever, completing the usual definition of a bear market (20% peak to trough) in just 22 days, quicker even than the crashes of 1929 and 1987.

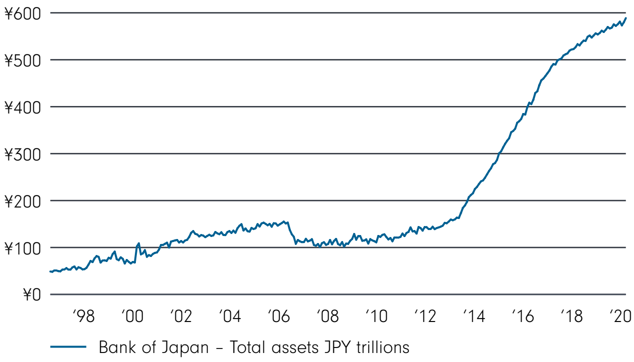
The rapid rebound after Congress voted through the stimulus package was a promising sign that investors do expect a V-shaped economic hit and recovery, but there will be plenty of wobbles on the way once the case and death rate figures start to accelerate.

The US entered this crisis with the most highly-valued market of all. This makes it vulnerable to an asset allocation shift towards cheaper regions. But on the basis that earnings regain their 2019 level by 2022 (Credit Suisse's forecast), and valuation multiples recover by the end of next year, we should see the S&P 500 back above 3,000 by the end of next year. That would suggest that further sell-offs to below 2,500 would bring the US back into buying territory.

Select 50 recommendations: *Our preferred way of playing the US market is through global funds, many of which have a heavy exposure to the world's biggest market but are not as vulnerable to its higher valuation as a pure US fund. Perhaps the best in this regard is the* ***Rathbone Global Opportunities Fund****, which holds about two thirds of its assets in US stocks.*

JAPAN

Bank of Japan continues to provide massive support



Source: Refinitiv, as at 31.3.20

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.

Japan moved early and decisively to counter the coronavirus outbreak, closing schools quickly and cancelling sporting events. From the outset, the intention was to control the number of infections and 'flatten the curve'. It has, therefore, had a much lower trajectory than many of the European outbreaks.

This is just as well because the Japanese economy did not enter the crisis in particularly good shape. The VAT hike last October had resulted in a 7% annualised fall in GDP in the fourth quarter of 2019, although that performance also reflected a number of natural disasters such as typhoons.

Expectations are for the first quarter to be hard hit again, thanks to lower exports and a dramatic reduction in inbound tourists, many of whom have come from China in recent years. Unsurprisingly, at least one more quarter of negative growth is now expected and probably a third too. Japan is already in recession, even if the data is not yet showing it.

The numbers, when they do emerge, will make for grim reading. Department store sales are running 30% lower than a year ago, with a 90% reduction in the tax-free element accounted for by tourists. Reservations on the Shinkansen bullet train between Tokyo and Osaka, the busiest line, are 60% down. That compares with a 20% reduction in 2011 after the Tohoku earthquake.

As elsewhere, the government is moving fast to offset the worst effects. In fact, it had already started to stimulate the economy in response to last autumn's tax hike. A third fiscal package, after measures last year and in January is due imminently. It is thought this might include handouts to individuals of the equivalent of £400 a person.

In addition to fiscal measures, the Bank of Japan is providing massive support, not least by purchasing equity ETFs and the size of its balance sheet has ballooned in recent years as the chart shows. With interest rates already below zero, it has run out of road on that front, however.

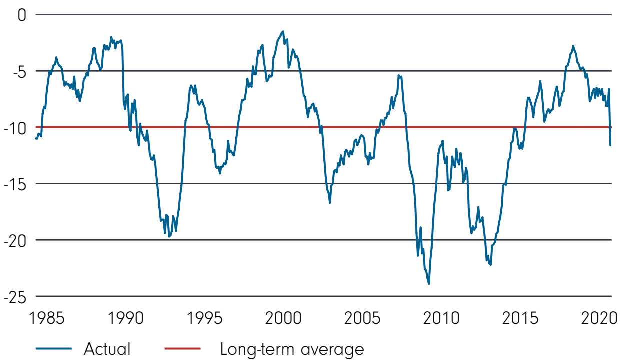
The Japanese stock market has been hit as hard as anywhere else since February, with the Nikkei 225 index down about a third at its low point, although it has recovered somewhat since then. This has brought valuations down to historically low levels with the average share price standing below the value of a company's assets.

Whether this will be sufficient to stabilise the market remains to be seen, but investing at this level has a considerable margin of safety. Further protection is provided by the strong balance sheets of many Japanese companies. Indeed, one big Japanese industrial automation company, Keyence, recently boasted that it had enough cash to allow it to survive for 17 years without any revenues at all. Living in a land prone to natural disasters, the Japanese really do hope for the best but plan for the worst.

Select 50 recommendations: *In a well-diversified portfolio, there is definitely a place for some Japanese exposure at today's valuations and with Asia coming out of the corona-crisis before the rest of the world. We have a good range of funds on the Select 50, including the* ***Baillie Gifford Japanese Fund****, the* ***Man GLG Japan CoreAlpha Fund*** *and the* ***Lindsell Train Japanese Equity Fund****.*

EUROPE

European consumer confidence could fall further



Source: Refinitiv, as at 31.3.20

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.

Earnings expectations at the beginning of 2020 pointed to growth of around 9%; the reality will almost certainly be a fall in profits of perhaps twice as much. The key question for investors in the region is whether this is a one-off hit that quickly corrects itself or something longer-lasting.

Markets have quickly priced in the profit downturn, with shares now trading on around 10 times forecast earnings. That compares with the long-term median of 13. If this turns out to be a two-to-three-month shutdown, with companies and individuals protected by unlimited fiscal measures then prices will bounce back sharply.

Market movements have been exaggerated and distorted in the early stages of the outbreak by the unwinding of positions. Hedge funds have been selling their long positions and buying back their shorts, which has had some bizarre impacts. The weakest banks, for example, have been the strongest performers. Soon we will return to fundamentals as the key driver and investors must do the hard graft of analysing which companies are best-placed to survive the lockdown without needing more cash.

The trauma of a health system on the point of collapse will be a key influence on investment in the months and years ahead. Healthcare services providers look interesting. Likewise, communications infrastructure will need bolstering. Consumption plays are a more difficult call. We just don't know how quickly or enthusiastically we will return to the old patterns of business and leisure travel. Existing trends, for example to online booking, will accelerate.

In due course, the attraction of the region's big defensive stocks (the likes of Nestle and Unilever) will return. Before that happens, however, there may be some better opportunities in more beaten-up stocks. Some of our portfolio managers are shifting attention to more cyclical shares.

Select 50 recommendation: *the Europe category of the Select 50 has defensive, growth-focused funds like the* ***Blackrock Continental European Fund****, which has held up relatively well in this year's sell-off. It looks for high quality companies with a competitive advantage. A more value-focused option, which has suffered more in the sell-off and may therefore have more recovery potential, is the* ***JOHCM European Select Values Fund****.*

ASIA AND EMERGING MARKETS

Asia was first into the corona-crisis and it will be first out. It will also provide the first evidence of how quickly the global economy can return to business as usual. The early signs are encouraging but everything will depend on whether the virus springs back to life with a second round of infections.

In China, data from a range of sectors paint a differentiated recovery picture. Restaurants, for example, are re-opening to a generally nervous customer base. Fast-food is doing better than sit-down, as many people are more comfortable picking up food than eating in close proximity with strangers. Turnover in large restaurants remains 40-50% below pre-outbreak levels.

In retail, around 80% of outlets are now open again, although sales are running at roughly half the levels of a year ago. High-end shops, where purchases are discretionary, are the hardest hit, although they may benefit in due course from fewer tourists travelling overseas for luxury items.

Grocery stores have bounced back quickly and online ordering is booming, perhaps a guide to what could happen in other regions of the world as they emerge from lockdown.

Not all of the region is as far advanced in the recovery process. In fact, Asia's other big economy, India, is early into the outbreak and far less well-placed in terms in terms of its ability to manage the spread of the disease and to support the economy with fiscal measures.

Arguably, however, this bad news has been largely priced in as the Indian stock market has fallen by around 40% in dollar terms. Having been a favourite among emerging market investors, shares in the country are now cheap versus history, trading at around 15 times earnings.

Select 50 recommendations: *The* ***Artemis Global Emerging Markets Fund*** *is one of our four fund picks for the year. It looks for attractive growth prospects at a reasonable price and seeks to avoid value traps by investing in shares where a catalyst for a higher valuation can be identified.*

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)	2015-16	2016-7	2017-18	2018-19	2019-20	Morningstar Fund Rating
ASIA AND EMERGING MARKETS						
Artemis Global Emerging Markets	-	41.8	11.5	0.2	-17.1	✪✪✪
Fidelity Funds - Asian Special Situations	-	38.4	13.1	3.8	-11.1	✪✪✪✪
Maple-Brown Abbott Asia Pacific ex Japan	-7.4	36.8	2.7	2.2	-24.8	✪
Matthews Asia Pacific	-5.5	29.1	8.2	5.3	-13.8	✪✪✪
Merian Asia Pacific	-6.4	43.3	16.5	-1.8	-11.7	✪✪✪✪
Stewart Investors Asia Pacific Leaders	-4.4	26.0	0.3	10.3	-9.3	✪✪✪✪
BONDS						
ASI Global Inflation-linked Bond	-0.3	6.0	1.1	2.2	3.8	✪✪✪✪
Fidelity MoneyBuilder Income	-0.5	7.7	1.6	3.0	1.3	✪✪✪
Invesco High Yield	-4.1	9.8	8.2	0.6	-10.7	✪✪✪✪
iShares UK Gilts All Stocks Index	2.7	6.7	0.2	3.8	10.3	✪✪✪
JPM Global High Yield Bond	-4.8	13.6	2.5	4.2	-8.2	-
Jupiter Strategic Bond	-0.9	8.1	2.0	3.3	2.4	✪✪✪✪✪
M&G Corporate Bond	0.2	7.6	2.2	2.9	-0.5	✪✪✪
M&G Optimal Income	-0.6	8.3	4.2	0.6	-6.2	✪✪✪✪
Royal London UK Government Bond	2.5	6.1	0.0	3.5	9.9	✪✪✪

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

% (as at 31st March)	2015-16	2016-7	2017-18	2018-19	2019-20	Morningstar Fund Rating
EUROPE						
Baring German Growth	1.2	31.2	7.8	-10.6	-20.1	★★★★
BlackRock Continental European	0.9	19.6	7.7	5.6	3.6	★★★★★
CRUX European Special Situations	6.3	22.2	8.9	-4.9	-12.3	★★★★
Fidelity Funds - European Growth	-	29.6	0.2	7.5	-15.5	★★★
JOHCM European Select Values	4.0	25.3	-0.5	-1.4	-24.5	★★
GLOBAL						
BNY Mellon Long-Term Global Equity	3.7	28.0	2.9	20.1	-0.6	★★★★
Fidelity Global Dividend	3.2	23.6	-4.5	15.3	1.5	★★★★★
Fidelity Global Special Situations	0.7	36.6	4.5	6.3	-4.3	★★★★
Invesco Global Equity Income	-2.3	27.5	2.4	3.8	-15.8	★★
Rathbone Global Opportunities	5.9	24.8	11.7	13.9	3.6	★★★★★
JAPAN						
Baillie Gifford Japanese	-6.4	44.2	15.4	-1.1	-8.7	★★★★
Lindsell Train Japanese Equity	7.5	34.2	20.7	0.5	4.5	★★★★★
Man GLG Japan CoreAlpha	-7.3	47.5	1.8	-2.0	-19.2	★★
NORTH AMERICA						
JPM US Equity Income	1.9	33.8	-3.5	17.3	-7.2	★★★★★
JPM US Select	-1.2	37.4	-2.0	17.2	3.3	★★★★
Lazard US Concentrated Equity	-	-	-1.2	16.0	-3.4	★★★
Merian North American	2.3	39.6	1.0	12.8	-6.2	★★★★
Schroder US Mid Cap	1.4	39.9	-5.2	11.6	-14.8	★★★★

STANDARDISED PERFORMANCE DATA (%) OVER THE PAST FIVE YEARS

% (as at 31st March)	2015-16	2016-7	2017-18	2018-19	2019-20	Morningstar Fund Rating
UK						
Fidelity Special Situations	2.9	21.5	4.4	1.2	-27.8	✪✪✪
Franklin UK Equity Income	1.0	19.0	1.4	7.5	-18.1	✪✪✪✪
J O Hambro UK Dynamic	-6.1	29.6	4.4	2.1	-27.0	✪✪✪
J O Hambro UK Equity Income	-6.8	24.5	7.3	-0.9	-29.5	✪✪✪
Jupiter UK Special Situations	-4.1	28.2	-2.2	2.8	-21.7	✪✪✪✪
Lazard UK Omega	-	22.0	3.6	-0.4	-22.6	✪✪
Liontrust UK Growth	2.7	23.2	2.6	7.2	-14.0	✪✪✪✪
Majedie UK Equity	-7.0	25.6	-3.1	2.9	-21.3	✪✪✪
Threadneedle UK Mid 250	5.8	7.3	9.2	-3.8	-18.1	✪✪✪
ALTERNATIVES						
Foresight UK Infrastructure Income	-	-	-	19.7	-1.1	-
Invesco Global Targeted Returns	0.7	4.2	-0.3	-2.1	1.0	-
Investec Global Gold	17.6	26.1	-9.8	11.8	13.6	✪✪✪✪✪
iShares Global Property Securities Equity Index	2.6	16.9	-7.8	21.9	-19.2	✪✪✪
Jupiter Absolute Return	7.0	5.6	-3.0	-4.2	-14.2	-

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 31.3.15 to 31.3.20. 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 2020E
Shares		%
US	16.3	2.4
Europe	13.0	4.6
UK	11.8	6.2
Japan	13.0	2.9
Asia Pac ex Japan	12.4	3.4
Emerging Market Asia	12.1	2.9
Latin America	10.7	4.7
Central East Europe, Middle East & Africa	8.4	6.2

	Redemption Yield
Bonds	%
ML Global High Yield	9.5
German 10-Year Bunds	-0.5
ML Global Corporates	3.1
UK 10-Year Gilts	0.7
US 10-Year Treasuries	0.7

INVESTMENT PERFORMANCE AT A GLANCE

% (as at 31st March)	3 m	2015-16	2016-17	2017-18	2018-19	2019-20
Shares						
S&P 500	-19.6	1.8	17.2	14.0	9.5	-7.0
FTSE All Share	-25.1	-3.9	22.0	1.2	6.4	-18.5
FTSE 100	-23.8	-5.3	23.3	0.2	7.7	-18.4
FTSE 250	-30.7	1.7	15.3	5.3	1.0	-18.6
Euro STOXX	-25.3	-16.0	21.4	-0.9	3.5	-13.9
Shanghai SE	-9.8	-20.0	7.4	-1.7	-2.5	-11.0
Shenzhen	-15.5	-1.2	-0.5	1.4	-10.3	-21.6
MSCI Emerging Markets	-23.6	-11.7	17.7	25.4	-7.1	-17.4
Nikkei 225	-19.2	-11.1	15.0	15.7	0.9	-8.8
TOPIX	-18.5	-12.7	12.3	13.5	-7.3	-11.8
MSCI World	-20.9	-2.9	15.4	14.2	4.6	-9.9
China Securities 300	-11.5	-22.8	2.8	26.2	-5.5	-7.9
Bonds						
US 10-Year Treasuries	14.3	3.1	-3.0	-1.1	5.5	21.5
UK 10-Year Gilts	5.1	4.0	5.7	-0.3	5.9	7.7
German 10-Year Bunds	2.9	1.7	-0.4	0.0	7.1	4.1
JPM Emerging Markets Bond Index	-11.8	4.4	8.8	3.3	3.5	-5.3
ML Global High Yield	-14.1	-0.7	13.8	6.7	3.2	-8.3
ML Global Corporates	-5.6	2.1	1.3	6.6	1.3	1.1
Commodities						
CRB Commodities Index	-34.3	-19.4	9.4	6.4	-3.9	-32.5
Crude Oil (Brent)	-78.1	-27.9	33.8	32.6	-1.6	-78.1
Gold Spot	3.6	4.2	1.3	6.1	-2.5	21.6
LME Copper	-19.7	-19.5	19.2	14.8	-2.9	-23.9
GSCI Soft Commodities	-18.5	1.7	6.8	-13.5	-9.6	-19.3
Silver	-21.1	-7.9	16.0	-12.0	-7.9	-7.6

Source: Refinitiv, 31.03.20. in local currency terms. Valuations: Source Citigroup Global Equity Strategist – Citi Research, MSCI, Worldscope, FactSet Consensus estimates as at 30.03.20. Bond Yields: Source Refinitiv, as at 31.03.20.