INVESTMENT OUTLOOK

Fidelity Personal Investing's market and investment view

In this issue:

- Investors look through the crisis
- What shape recovery?
- The end of US leadership?
- Where to find income

July 2020

"After the shortest bear market ever, attention shifts to the shape of the recovery."

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	Neutral	Downgrade	We were right to be positive on shares three months ago but the dramatic rally in prices since March suggests the need for more caution.
Bonds	Neutral	Unchanged	Corporate bonds have followed equities higher and look fully-valued. Economic wobbles ahead could bring government bonds back into favour.
Property	Neutral	Upgrade	The outlook for retail and office properties is challenging but, in a yield-hungry world, real estate will continue to attract investors.
Commodities	Positive	Unchanged	Uncertainty and low interest rates increase the attraction of gold. Oil still looks over-supplied but the price reflects that now.
Cash	Positive	Unchanged	After the dramatic rally in most asset prices, now is a good time to ensure you have some cash at hand to reinvest if markets correct.
Regions	**Current View**	**3 Month Change**	
US	Neutral	Unchanged	Wall Street has continued to defy the sceptics and now looks pricey against a worrying Covid-19 backdrop. But who would bet against the US?
UK	Positive	Unchanged	The UK has been a serial underperformer. Despite the absence of dividend support, its unpopularity looks overdone.
Europe	Positive	Unchanged	European shares have had a good crisis as investors have turned their attention to the region's defensive and high-quality companies.
Asia Pacific ex-Japan	Positive	Unchanged	It's a tale of two regions, with the north looking much better than the south. First out of the crisis, Asia's structural advantage is clear too.
Japan	Neutral	Unchanged	Japan is dependent on the outside world to keep its exports humming and after a decent run its shares are no longer obviously cheap.

Current View: ☑ Positive ⊟ Neutral ☒ Negative

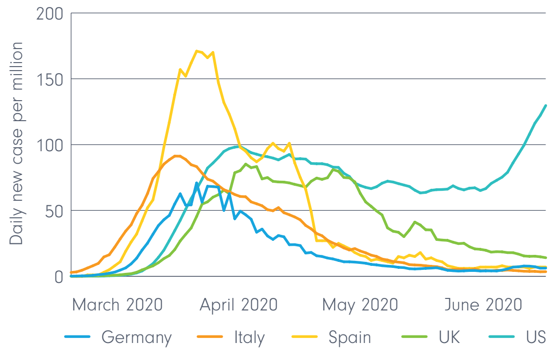
3 Month Change (since the last Investment Outlook): ▲ Upgrade ▶ Unchanged ▼ Downgrade

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

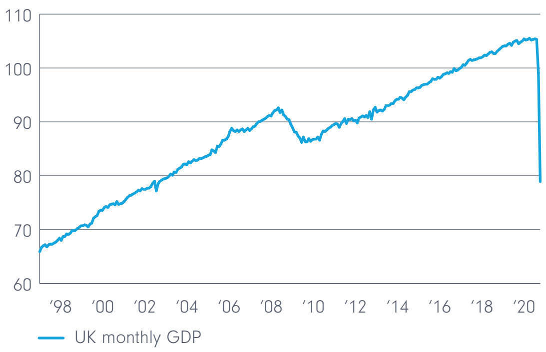
Q2 in three charts

A rolling pandemic puts the world into lockdown...

The start of the second quarter of 2020 saw the epicentre of the global Covid-19 pandemic shift from Asia to Europe. Governments handled the outbreak in different ways and with differing levels of success, but none escaped its clutches. By the end of the quarter, Europe was over the worst and the focus had moved across the Atlantic, to the US and Brazil in particular. Asia was by now into the recovery phase, albeit with periodic flare-ups along the way. The disease showed no respect for populism as an unprecedented shut-down of individual freedoms proved to be the only effective means of combating the virus. Countries that had endured SARS learned important lessons. Those countries that deferred difficult decisions or underestimated the invisible enemy are paying the heaviest price as the dramatic rise in infections in America, shown in the chart, confirms.



Source: Refinitiv, as at 30.6.20



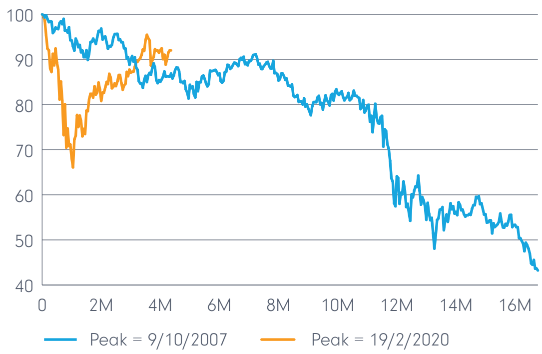
Source: Refinitiv, as at 15.4.20

...causing the worst downturn since the Depression...

Locking down whole economies, shutting all but essential services and confining whole populations to their homes was the only way to protect the most vulnerable and, crucially, the ability of national health services to cope with the surge in demand for intensive care beds and ventilators. The short-term economic impact was cushioned by unprecedented interventions by both governments and central banks. Millions of workers were paid to retreat into isolation at home. They stopped spending on pretty much everything other than food and drink. The impact on the economies with governments that could afford the enormous cost of this exercise is shown clearly in the chart. Britain's economy shrank by more than a quarter between February and April. What happens when the protection is gradually lifted over the summer and autumn remains to be seen, but the worst unemployment since the early 1980s recession seems inevitable.

...but the stock market looks through the crisis

What has surprised many is the sanguine response of the financial markets to this economic devastation. The bear market between February and March was savage, with most benchmarks losing a third of their value in a few weeks. But even more remarkable has been the scale and speed of the recovery from this downturn. The US has led the bounce back thanks to the weighting of its stock market to the few sectors that might benefit from the profound social changes resulting from the pandemic – notably technology and healthcare. The tech-heavy Nasdaq index is now higher than it was at the beginning of the year and the broader S&P 500 index, shown here, is only a few percentage points down on its February high point. The comparison with the global financial crisis is stark. Massive stimulus and the relative strength of the financial system this time around has persuaded investors that this is not a repeat of 2008. Time will tell.



Source: Refinitiv, as at 30.6.20. Performance of S&P 500 in months from two previous peaks

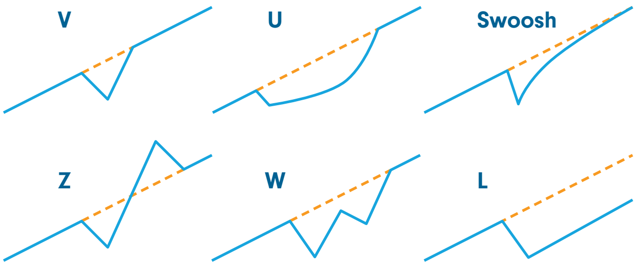
Past performance is not a reliable indicator of future returns. When investing in overseas markets, changes in currency exchange rates may affect the value of an investment. For full 5 year performance figures please see page 15.

Acknowledgements: 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; Gary Monaghan, investment director in Hong Kong; Leigh Himsworth, portfolio manager; Ayesha Akbar, portfolio manager; Jeremy Podger, portfolio manager; Neil Cable, head of real estate; Andrea Ianelli, fixed income investment director; Kasia Kiladis, US investment director; Rebecca McVittie, emerging markets investment director; and Natalie Briggs, Europe investment director.

In focus: living with coronavirus

As we move out of the initial crisis phase of the pandemic and the dust starts to settle, we can begin to evaluate what the post-coronavirus world will look like and how well the markets are pricing it in. Inevitably, there are many more questions than answers right now, but let's make a start.

What shape the recovery?



Source: Financial Times, Brookings Institution, May 2020

A whole alphabet soup of possible economic and market 'what next' scenarios has emerged in recent weeks as investors attempt to rationalise the remarkable rise in asset prices since the middle of March. Some look more plausible than others. We've clearly had a V-shaped market recovery, but this is unlikely to be the shape of the economic bounce. For that to happen, we would need a vaccine, a rapid return to work, and a sustainable pick up in consumption and travel. None of these looks likely.

The bath-tub or U-shaped recovery looks more probable – a long and shallow recovery before the economy gets back to trend in due course. Fidelity's economists have this as their base case, with a 60% probability versus just 10% for the V. Not the base case but a reasonable tail risk is the so-called L-shaped non-recovery which sees the economy return to previous levels of growth but from a lower starting point. In other words, there is a permanent loss of output that is never recovered.

I think the most likely outcome will resemble a W or its swoosh or Z-shaped variants. A rapid initial recovery as shops and restaurants re-open, flights resume, and we get back to work will run out of steam and there will be one or more relapses before a proper recovery eventually takes hold. There could be several reasons for this – stimulus is removed too quickly, infections surge again, or precautionary saving is triggered by rising unemployment. We can write off 2020. The key question is what 2021 looks like.

Permanent change or just a blip?

The shape of the recovery is important, but investors also need to assess how deep the slump will be, how big the bounce and how long it will take. Only by putting all of these together can we judge whether the stock market has moved too far and too fast, as now looks possible.

Every month, we now ask our analysts around the world what they are hearing from the companies they follow. This regular temperature check is a useful real-time guide to what's happening on the front line. The bottom-up view helps validate the top-down economic assessment.

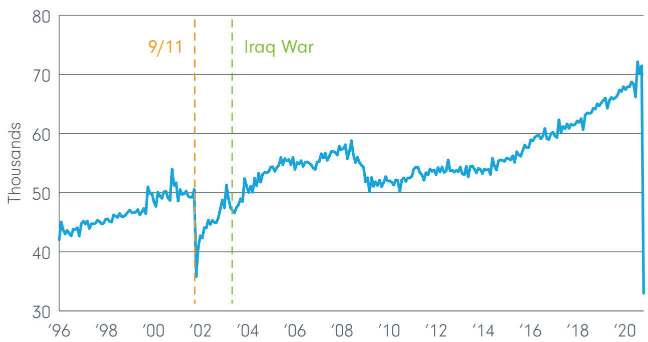
Our latest survey was surprisingly optimistic, especially in the parts of the world which were first in and first out of the pandemic. China's economy is expected to stabilise within six months or so, well ahead of regions like Latin America which are still in the thick of their crises and more than a year away from normality.

As for what the new normal looks like, it's also a mixed bag. Some sectors, such as IT, consumer staples and healthcare, should stabilise at levels of activity higher than last year's. Others, notably consumer discretionary, will shrink and take much longer to return to their previous scale.

A key influence on this might be a negative feedback loop from rising unemployment. Even if people do not lose their jobs, the fear of redundancy will encourage less spending and more saving. As President Roosevelt said, perhaps the biggest thing for us to fear is fear itself.

Some things are unlikely to return to the status quo ante. Perhaps the most obvious of these are how we work and how we shop. For many of us, a return to the office is a distant prospect. Even when we do, working from home has been normalised (and shown to be effective). Shopping will become an ever more online activity until fears about crowded spaces abate. Travel and eating out will take some time to get back to normal, despite the Chancellor's best efforts to boost these sectors. That said, as the chart below shows, even big 'everything's changed' moments like 9/11 can actually turn out to be no more than a blip.

US passenger numbers on domestic flights



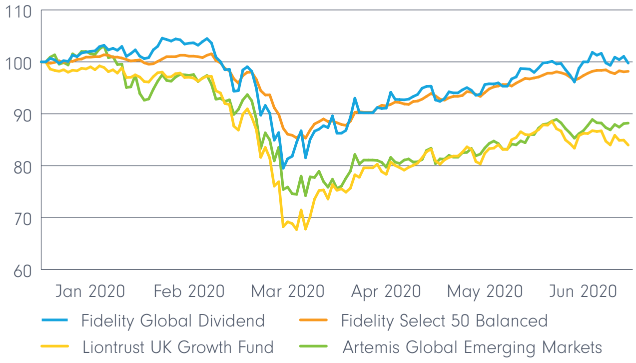
Source: Refinitiv, as at 30.6.20

Sustainable investing and the pandemic

Until Covid-19 came along, perhaps the biggest theme in investment was the growing importance of environmental, social and governance (ESG) factors. With the focus shifting to corporate survival, you might have thought that sustainability would have fallen off the agenda, but our recent analyst survey suggests it remains a key focus. Just 15% of companies told analysts that they would not be prepared to sacrifice some earnings to promote a more sustainable agenda.

Actually, the assumption behind this question is looking increasingly old-fashioned as evidence mounts that sustainability is a key driver of profitability and shareholder returns. During the early stages of the pandemic, when share prices were tumbling, we analysed the stock market performance of companies that ranked highly on Fidelity's in-house sustainability scores. They held up much better than companies that ranked poorly. Increasingly, it seems that investors view sustainability as a risk mitigation factor as much as an ethical issue.

Fund recommendations



Source: Refinitiv, as at 30.6.20. Rebased to 100 from 1.1.20

Past performance is not a reliable indicator of future returns. Overseas investments will be affected by movements in currency exchange rates. Investments in emerging markets can be more volatile than other more developed markets. For 5 year performance figures please see pages 12-14.

The four funds we recommended at the beginning of the year have continued to diverge, as was the case three months ago. The two defensive plays – Fidelity Global Dividend and Fidelity Select 50 Balanced – fell significantly less than the broader market between February and March and have clawed back most of their losses in recent weeks. Global Dividend is back where it started the year and the Balanced fund is down just a couple of percentage points.

The Liontrust UK Growth Fund and the Artemis Global Emerging Markets Fund fell further and have been slower to recover. This is perhaps unsurprising when you consider how the pandemic has had a disproportionately big impact in the developing world (India and Brazil notably) while the UK's handling of the crisis has been patchy and conducted under the shadow of the Brexit transition. Liontrust is 16% down year to date and Artemis 12% lower. By comparison, the FTSE 100 index is 17% lower than it started the year while the MSCI Emerging Markets index is down 10%.

What are we watching in the second half?

The pandemic has completely dominated the market agenda in the first half of this year. It will obviously be a big factor in the second six months too. But it's not the only thing to watch. So, what else will we be looking at? Roll back the tape to January and you can see what we thought mattered before we'd heard of Covid-19. That is probably a good starting point.

Trade tensions, Brexit, the oil price and the future of Hong Kong were all close to the top of the agenda. None of these has gone away. Indeed, they are all very much back on the radar again. Trade will be a key talking point in the forthcoming Presidential election campaign, both because it is helpful to have an 'other' to blame when things are going badly wrong at home and because this is perhaps the only bi-partisan issue in US politics right now. Both the Republicans and Democrats share the view that China is a big threat to US economic dominance.

The outcome of the election is much harder to call than it seemed before the pandemic. The President's erratic handling of the crisis and its economic and social consequences have kicked away two key pillars of Donald Trump's re-election plan – historically low unemployment and an eleven-year bull market. What might a Biden Presidency look like? Less chaotic, for sure, but possibly less business-friendly, with higher taxes and more red tape.

Brexit is back as a live issue here in the UK. The moment to ask for an extension of the transition period has passed and the best the Prime Minister can hope for is that the economic impact of a hard Brexit can be hidden within the broader coronavirus downturn. An increasingly post-global economy, that is more protectionist and regional, does not look like a favourable backdrop for the launch of SS Global Britain next January.

What do the 2020s look like?

What happens in the next six months should already be priced into markets if they are doing their job. What will not yet be factored in, because it is so uncertain, is what the world will look like in 10 years' time. So, how might the 2020s look compared to the 2010s? Here are six possibilities:

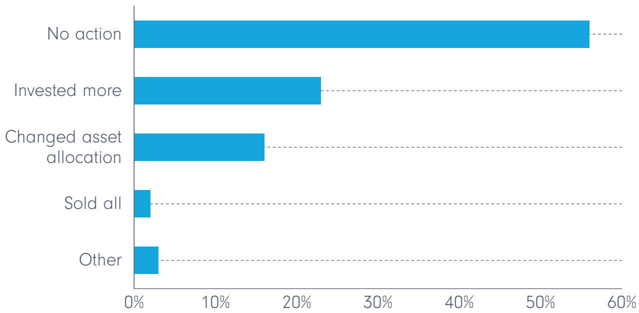
- Redistribution of wealth replaces inequality
- Fiscal policy is a bigger driver than interest rates and QE
- Tax rates rise for both companies and individuals
- The rest of the world outperforms the US
- Deflation is replaced by inflation
- Value finally takes over from growth as the dominant investment style

....and what about you?

One of the great dangers of markets as volatile as the ones we have lived through this year is that our actual investment experience is very different from that of the main indices or even the funds we invest in. This will be the case if we compound the existing market challenges with our own mis-timed attempts to manage our portfolio through the ups and downs. You only have to look at the chart of our recommendations to see the potential to lock in losses and miss out on the recovery.

Well, I'm delighted to report that a survey of investors we conducted recently came to a very different conclusion. When we asked investors what they had actually done with their holdings during the last few months, just 2% said they had sold up and run for cover, 16% said they had changed their asset allocation, 23% invested more at lower prices and an impressive 56% did nothing at all. We always recommend riding out the storm but recognise that it is easier said than done. I do hope you manage to.

Actions taken regarding investments since the outbreak

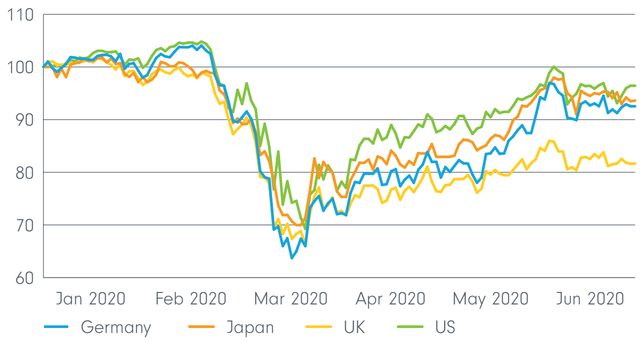


Source: Research was conducted by Opinium Research for Fidelity International based on a sample of 1,000 independent UK investors during May 2020

Asset classes

SHARES

Global markets recover in tandem



Source: Refinitiv, as at 30.6.20. Rebased to 100 from 1.1.20

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. For full 5 year performance figures see page 15.

The second quarter was one of the strongest ever for global stock markets as shares rebounded from the sharp falls in late February and early March. Shares in the US, Japan and Europe clawed back almost all the ground they lost in the spring in a classic 'down in the elevator, back up the stairs' recovery pattern.

The rally in share prices came despite no improvement in the economic or medical backdrop. The second quarter has been punctuated by a steady flow of grim headlines – job losses, tumbling GDP, rising infection rates, dividend cuts. Wherever you look the news has been bad.

So why have markets been so strong? In a word, stimulus. The response from both governments and central banks has been without precedent. It has knocked even the reaction to the financial crisis into a cocked hat. The world over, the authorities have said we will do whatever it takes to get us through to the other side. Everyone has been on a war footing.

As we discovered 12 years ago, when the spending taps are opened in this way, much of the benefit leaks not into the real economy but into asset prices. Housing, shares, bonds, precious metals – everything becomes more expensive. This is great news for people who already own those assets, less good for the people the stimulus is really meant to help.

Rightly or wrongly, when this kind of stimulus is underway it makes no sense to stand in the way. As the old adage says, don't fight the Fed, especially when the Fed and the government are operating in tandem. This does not mean that shares are a one-way ticket from here. There is plenty to worry about still. As the supportive measures are gradually unwound this year, the grim reality of rising unemployment, precautionary saving and battered confidence will become clear. Whether valuations at pre-pandemic levels can be justified in that environment is questionable.

Another reason that shares look vulnerable is the collapse in income support as companies have decided they can't or won't continue to pay generous dividends to shareholders. Dividend yields have far outstripped safe bond yields, tipping the balance in favour of shares. That is no longer quite so clear-cut.

Today's valuations are punchy when you consider the deep valley investors will have to navigate on their way to the sunlit uplands on the other side of this pandemic. Time to tread carefully.

Select 50 recommendations: *This does not feel like the moment to place big bets in the stock market. A balanced and well-diversified approach is the best defence against possible volatility this summer and autumn. Global equity funds provide geographical spread; even better, the* ***Fidelity Select 50 Balanced Fund*** *offers diversification across both regions and assets.*

COMMODITIES

The backdrop for gold could hardly be more favourable today so it is no surprise that the precious metal is trading close to its highest level for eight years and not that far off the all-time high price of $1,900 it reached in 2011. Gold does well when the outlook is uncertain, when investors fear a return of inflation and when interest rates are low. Tick, tick, tick.

Having clawed back most of the losses inflicted on stock markets since February and with the outlook for the economy unclear in the extreme, gold looks like a port in the storm. Right now, there are no real concerns about inflation, but longer term the massive scale of fiscal and monetary stimulus could light a fire under prices. As for interest rates, they are not going anywhere anytime soon and that means the opportunity cost of holding a non-yielding asset is next to nothing.

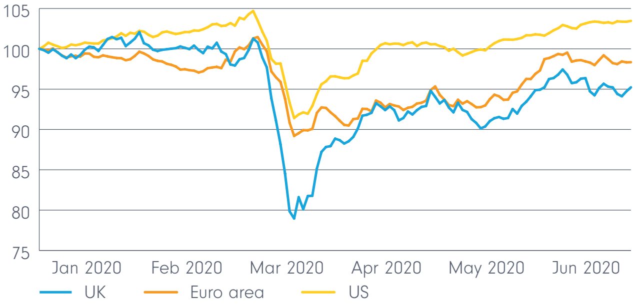
The other main commodity of interest to private investors is oil, which has ridden a roller-coaster this year. Almost the opposite of gold, oil does well when the economy is in good health. The pandemic's lockdowns have been precisely what oil investors have not needed – no-one is driving or flying and factories have been shut down for weeks on end.

The collapse in demand for energy led to one of the most bizarre episodes in the 150 year history of the oil business recently when oil producers ran out of places to store the crude they were obliged to continue pumping, leading to the first ever instance of negative prices. Supply is still too high and both the UK's big oil majors have recently downgraded their long-term forecasts for the oil price. At $40 a barrel, oil is below their estimate of a sustainable price but not by a huge margin. Faced with recessions the world over this year, it is hard to see the oil price moving far above its current level for now.

Select 50 recommendation: *A rising gold price is best captured by investing in the shares of gold miners. With fixed costs, their profits should rise more quickly than the price of the metal itself. The* ***Ninety One (formerly Investec) Global Gold Fund*** *is our recommended fund in this space.*

BONDS

Corporate bonds track shares higher



Source: Refinitiv, as at 30.6.20. UK (S&P UK IG Corp Bond), Euro area (S&P IG Eurozone Corp Bond) and US (S&P IG Corp Bond). Rebased to 100 from 1.1.20

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. For full five year figures see page 15.

The chart of investment grade corporate bond returns here looks remarkably similar to the equity returns chart on the opposite page. A sharp fall in February and March as investors fled from perceived risk has been followed by a steady recovery during the second quarter. By the standards of the normally more-staid fixed income markets, the last three months have been a great time to be a bond investor.

The driver of the riskier end of the fixed income market has been exactly the same as for equities. Massive stimulus, in particular the decision by central banks to buy corporate bonds as well as those issued by governments, has provided a backstop for investors.

Corporate bonds are valued with reference to the yields offered by safe government bonds. Because of the extra risks involved (a company can go bust unlike most governments) investors demand a higher yield in compensation. But when the risks seem to be less onerous, the spread between corporate and government bond yields narrows and that is what we have seen in recent weeks. When yields fall, prices rise.

The driver of government bond prices is a bit different. A gloomier outlook can drive investors into the perceived safety of sovereign debt which can be relied upon to be repaid whatever the state of the economy. Although government bond yields are already very low historically, it is possible they could go lower still as recessions bite. Again, lower yields equal higher prices.

Finally, it is worth stressing that the strong rebound in risky assets like shares and corporate bonds could reduce the willingness of governments to provide fiscal stimulus going forward. That would be a catalyst for more volatility, and would make government bonds seem like a safe haven.

Select 50 recommendation: *ahead of a difficult period for the UK economy, it is hard to see the yield on Gilts rising far from here. The* ***iShares UK Gilts All Stocks Index Fund*** *is a simple, passive way to gain exposure to government bonds. Corporate bonds are best accessed through a go-anywhere fund like* ***Jupiter Strategic Bond*** *or the* ***Fidelity MoneyBuilder Income 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

The real estate sector is going through multiple crises at the very moment when its traditional qualities – sustainable income and inflation-proofing – are needed more than ever. As the boomer generation moves into retirement, its needs are shifting from capital growth to income and capital preservation.

Retail's woes preceded the pandemic, but they have intensified in the past three months. The pain on the High Street has fed straight through to the real estate sector as a result of the Government's desire to protect tenants from eviction. The recent Quarter-Day rental payments represented a historically low fraction of the amount due.

As for the office sub-sector, the successful mass experiment in working from home has put the future of expensive city centre headquarters in doubt. Even when we do get back to normal, office life will look very different and require a lot less space.

As a consequence of these seismic shifts, the traditional structure of the industry, with city centre offices and glitzy shopping centres representing the asset class's prime investments, has been turned on its head. The focus of property investors is now less about location and quality and more about tenant strength and sustainability.

With the income streams from bonds and shares under pressure, property will continue to be one of the few remaining sources of reliable yield. But finding the right manager for a property portfolio will matter more than ever. Successful property investment will look a lot more like stock-picking than simple asset allocation from now on.

Select 50 recommendation: *Commercial property is an illiquid investment. We have always preferred to gain real estate exposure in the Select 50 through a passive fund that invests in the shares of closed-ended real estate investment trusts (REITs). The* ***iShares Global Property Securities Equity Fund*** *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 sell/cash in this 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

When furloughs end unemployment will rise

Source: Refinitiv, as at 15.5.20

The UK stock market has been a notable laggard during the roller-coaster ride in the first half of 2020. Standing 17% lower than it started the year, the FTSE 100 has significantly underperformed its developed world peers, with both European and Japanese shares around 10% lower and Wall Street within touching distance of its New Year level.

To an extent that is justified. The UK has not had a great pandemic. It continues to labour under the shadow of Brexit. And its benchmark index is dominated by out of favour sectors like energy and financials. Dividends, a key support for the UK market over the years, were an early victim of lockdown as companies either wouldn't or couldn't maintain pay-outs to shareholders.

Whether the lower valuation of the UK market is a fair reflection of the outlook will depend on what happens next. Andy Haldane, chief economist at the Bank of England, rightly pointed out recently that so far at least the UK has enjoyed a V-shaped recovery – sharp fall then rapid bounce back. But he was also right to suggest at least two possible scenarios going forward.

One path for the UK economy sees a negative feedback loop from rising unemployment to lower spending by consumers and investment by companies. As the Government's furlough scheme is progressively unwound over the summer and autumn, the unemployment rate is bound to rise. The worst expectations see a re-run of the 1980s experience, which left long-lasting scars.

Another possible outcome is a positive feedback between higher spending and lower unemployment. The thinking here is that the release of pent up demand as the economy re-opens will persuade employers not to lay workers off in anticipation that their services will be needed, if not now then very soon.

So, there is a good chance that the UK market is being unfairly treated by investors and may reward anyone brave enough to invest in the face of the various worries that are real but already priced in.

Much will depend on whether the government has the nerve to keep supporting the economy despite the eye-watering cost of doing so. Fiscal support is already calculated at 15% of GDP and the Bank of England's balance sheet is twice as high relative to the size of the economy as it was after the Second World War.

Stimulus spending has a tendency to leak into asset prices. We saw that after the financial crisis. It is why it rarely pays to be too bearish while governments and central banks are opening the taps.

There will be plenty of opportunities for investors if that support continues. In the first instance there will be beneficiaries of the stimulus itself – what those are will depend on how targeted the measures are and what the government chooses to prioritise. The next set of opportunities will come in those areas that benefit from the far-reaching changes to how we work, consume and entertain ourselves that the pandemic has brought in its wake.

The final set of opportunities will probably come as the inflationary consequences of massive stimulus start to be recognised. Inflation doesn't look like a problem today, but it may well in a couple of years' time.

Select 50 recommendations: *The next year or so is going to be difficult for the UK economy. That means it is too early to rotate into value stocks and so the more defensive funds on our select list should maintain their edge. The* ***Liontrust UK Growth Fund*** *has a focus on quality, seeking out pricing power as a competitive advantage that should serve investors well in the challenging period ahead.*

US

Nasdaq still leading the pack

Source: Refinitiv, as at 30.6.20. Rebased to 100 from 1.1.20

Past performance is not a reliable indicator of future returns. Overseas investments will be affected by movements in currency exchange rates. For full 5 year performance figures see page 15.

The US demonstrates capitalism that is red in tooth and claw. Without the safety nets that cushion the blow in Europe, Americans are on their own in the world's most unsentimental jobs market. That's why we've seen some extraordinary swings in the employment data in recent weeks. Easy to fire, easy to rehire.

The need to keep working also explains why the country has arguably been too cavalier in its return to normality. And why it has, therefore, paid such a heavy price in terms of infections and deaths from Covid-19. That and a President who has signally failed to grasp the seriousness of the crisis he is facing.

America will bounce back in due course. It always does. That is certainly what the stock market is telling us as the S&P 500 returns to where it started the year and Nasdaq hits new records. The US stock market has, of course, been helped by its heavy weighting to the sectors which have been identified as the big winners from lockdown – technology and healthcare.

The American consumer is back in force with retail spending, down 33% at the end of March, now up 19% year on year. Handing $1,200 to every qualifying American has clearly helped, part of a $2trn fiscal support package, the biggest ever. Perhaps unsurprisingly some of that has found its way into the stock market as retail brokerage account openings boomed.

Looking forward, three things will matter in the US. First, the country needs to get on top of the pandemic. The infection charts show a worrying refusal to follow the curve-flattening that Asia's and Europe's lockdowns achieved.

Second, the Presidential election. The country is clearly divided, so it's unlikely to be a clean sweep for either side, but whether we get another dose of Trump or a Biden term remains too close to call. The election is surely the Democrats' to lose now but the President knows how to win dirty. It won't be an advert for democracy in November.

What would a Biden Presidency look like? On one level it would be a lot less chaotic and unpredictable than the current administration. That's a positive. But regulation and taxes would certainly rise, even if higher rates might be resisted for a while as America emerges bruised from the pandemic. Drugs prices would likely be capped. The energy sector would have a harder time of it. The good news is that environmental spending would increase, there might be a re-shoring of jobs to the benefit of the consumer economy. In either case, fiscal spending on roads, bridges and the digital economy might actually be delivered after four years of empty promise.

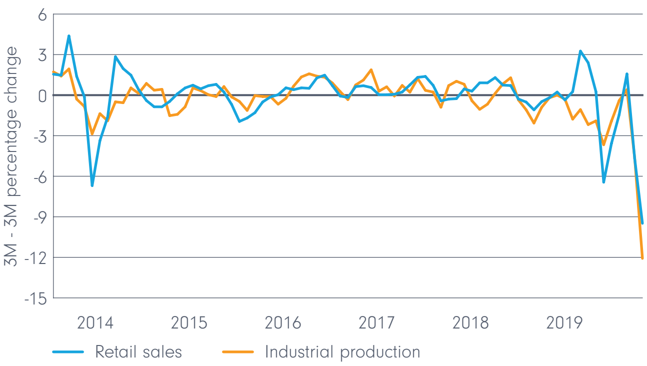
Third, trade tensions. The relationship with China is one of the few genuinely bi-partisan issues in American politics. Both Democrats and Republicans view China as a threat to US supremacy. Previous administrations have tried to woo China into the international fold. Now both sides have realised that America's rival is determined to win and will do what it has to in order to topple the US.

Wall Street has looked expensive for years. Backing that hunch with your investments has not been a good idea – so far. The US's leadership of global markets does not look so secure now in the face of such an array of social, medical, fiscal, trade and political crises. All of that said, a well-diversified portfolio is bound to still have a decent weighting in the US.

Select 50 recommendations: *The* ***JPM US Select Fund*** *is well-diversified by sector and style factors and has a focus on quality and good valuations. This makes it a good core holding for US exposure. Over the last year, the fund narrowed its holdings from 120 to 60 and has outperformed usefully since the change was implemented.*

JAPAN

Japan was already struggling before the pandemic



Source: Refinitiv, as at 30.6.20

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 has had a better pandemic than most countries, with fewer than 1,000 deaths so far, despite a recent pick up in cases. This is despite not officially imposing the draconian lock-downs that many of its Asian neighbours implemented. The Japanese constitution means the Government could only request compliance with stay-at-home orders but, in a country where the nail that stands up is hammered down, that was enough to control the outbreak.

Japan's economic woes preceded Covid-19. Having increased its consumption tax in October last year, the country was already well into a technical recession by the time the virus started to spread. GDP was down 7.4% in the fourth quarter of last year and another 2.2% lower in the three months to March. April to June will naturally be much worse and output is expected to be about 5% lower for 2020 as a whole.

High frequency data show that recovery is already underway, helped by a Government hand-out to all residents of the equivalent of around £800. There was, for example, a big rise in electricals purchases from mid-May, suggesting many people just went out and bought a new TV with the money. Non-essential spending is pretty much back to February levels.

A low unemployment rate by international standards (under 3%) has helped.

The manufacturing side of the Japanese economy is not so encouraging. The purchasing managers' index in May, at 38, was the lowest since the financial crisis. Up a fraction in June, it remains well below the 50 level that separates expansion from contraction. Again, however, the worst is now thought to be in the past. Continuing stimulus from the Bank of Japan should ensure that is the case.

Moving from the economic picture to corporate earnings, this tricky backdrop is likely to be reflected in weak profits in the fiscal year to next March. Earnings could be as much as 7% lower than last year although with less than half of companies offering any guidance, the actual outcome is anyone's guess. The good news is that this comes as a surprise to no-one. The market has pretty much written off 2020 and is looking forward to better times to come.

Having recovered around 70% of the losses incurred during the February to March market downturn, Japanese shares are no longer particularly cheap. On about 18 times earnings, they are better value than US shares but you need to look forward a couple of years before the 12-13 times multiple starts to look particularly attractive.

What you think about Japanese shares will reflect how you view the prospects for a decent global economic recovery. With 20% of exports going to the US and about the same to China, Japan's outlook depends to a large degree on the world's two main economies returning to normal.

If you think we are on a recovery path then you will also be persuaded by the income attractions of Japan, with a 2.5% yield supported by a cash-rich corporate sector that is committed to continuing to pay dividends.

Select 50 recommendations: *our select list has a good range of Japanese funds, offering different investment styles. A mixture of* ***Baillie Gifford Japanese, Man GLG Japan CoreAlpha*** *and* ***Lindsell Train Japanese Equity*** *will capture those different approaches.*

EUROPE

Short-term economic data will be grim

Source: Refinitiv, as at 30.6.20

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.

European shares have bounced back strongly since March and in June they overtook the slowing US market as investors warmed to a region which appears to have successfully navigated the Covid-19 crisis with a combination of well-enforced lockdowns and massive government and central bank support.

The ECB launched a €750bn Pandemic Emergency Purchase Programme which will last until at least the end of the year and Christine Lagarde, the bank's president, has said it is fully prepared to 'adjust its composition by as much as necessary and for as long as needed.' It was her equivalent of Mario Draghi's 'whatever it takes' moment. Meanwhile, at the state level, governments have launched the biggest furlough schemes in history. Policy makers have stepped up to the plate.

So, while the short-term numbers are going to look pretty grim in Europe, there are plenty of reasons to consider the region for a part of a diversified portfolio.

First, European equities offer great diversity of revenue streams. While 60% of American companies' sales are made in the US, just a third of European firms' turnover comes from the home market. It has exposure to Asia and the US, too, in almost equal measure. That's important in an uncertain world.

Second, European companies are relatively defensive with a diminishing proportion of cyclical stocks and many best-in-class businesses headquartered in the region. Investors are spoilt for choice when it comes to shares offering strong balance sheets, good franchises and resilient earnings streams.

Third, valuations are reasonable. Not cheap, after the rally, but in line with Japan and better value than those in the US. European shares also look cheap when compared with bond yields in the region, negative in some cases now.

One final consideration. Europe is the home of environmental, social and governance (ESG) factors. Companies that score highly on these issues are outperforming those that score poorly and nowhere is the choice of sustainable businesses better than in Europe.

***Select 50 recommendations:** The **BlackRock Continental European Fund** is a defensive, quality-focused and quite concentrated fund. It looks for companies with a competitive advantage and will tend to perform relatively well when growth is harder to find.*

ASIA AND EMERGING MARKETS

Asia was first in to the pandemic and first out again, although there is a clear distinction between the more advanced northern half of the region where China, Taiwan and Korea had a good crisis. India less so. Shares in China recently hit the highs they reached before the currency-related sell-off in 2015 as investors start to look to life on the other side of Covid-19.

In China, activity is picking up well. Factories are back to pre-crisis levels of output and the big question now is not so much on the supply side as demand. Will the consumers be there? High volume, low margin producers look particularly vulnerable. Retail spending is down, although online is holding up well. And there have been some surprises – the inability to travel in the region has left plenty of people with the disposable income to splash out on cars, jewellery and other luxury goods.

Trade is a recurrent issue as China and the US engage in what is essentially an economic cold war. Even here, though, opportunities can result from the bad blood between the two. Companies with US listings are increasingly looking to have their shares traded in Hong Kong too and that opens them up to southbound money from the mainland via the so-called Hong Kong-Shanghai Connect.

Elsewhere in the region, Taiwan is viewed as a safe haven for Hong Kong money looking nervously over the border with the mainland. That's good news for Taipei's banks. In India, shares have fallen from high valuations before the crisis. But no-one's buying just yet. Thailand did a great job of containing the pandemic, but it has paid a heavy price. Its borders remain closed, a problem for a country so dependent on tourism.

***Select 50 recommendation:** The **Stewart Investors Asia Pacific Leaders Fund** is in a sweet spot at the moment. It invests across the region that's emerging earliest from the pandemic and it focuses on 'socially useful' sustainable companies that our research shows are also likely to outperform in the long run. The fund has bounced back well from the March sell-off.*

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 30th June)	2015-16	2016-7	2017-18	2018-19	2019-20	Morningstar Fund Rating
ASIA AND EMERGING MARKETS						
Artemis Global Emerging Markets	3.5	36.7	6.9	7.6	-10.9	✪✪✪✪
Fidelity Funds – Asian Special Situations	11.8	29.9	8.2	5.9	-0.3	✪✪✪
Maple-Brown Abbott Asia Pacific ex Japan	4.7	29.5	6.1	2.1	-18.3	✪
Matthews Asia Pacific	10.0	20.1	9.3	5.4	1.4	✪✪✪
Merian Asia Pacific	7.0	41.9	13.0	-1.4	3.9	✪✪✪✪
Stewart Investors Asia Pacific Leaders	11.6	14.5	8.5	7.2	1.9	✪✪✪✪✪
BONDS						
ASI Global Inflation-linked Bond	7.8	1.0	1.4	5.2	6.1	✪✪✪
Colchester Global Bond	-	-	-	-	6.6	-
Fidelity MoneyBuilder Income	6.8	5.2	0.5	5.6	5.0	✪✪✪
Invesco High Yield	-3.0	13.0	3.0	4.1	-2.7	✪✪
iShares UK Gilts All Stocks Index	12.3	-0.3	2.1	4.9	11.2	✪✪✪
JPM Global High Yield Bond	-0.4	10.7	1.5	5.5	-2.6	-
Jupiter Strategic Bond	4.3	6.3	0.1	6.7	4.3	✪✪✪✪✪
M&G Corporate Bond	6.7	5.9	0.4	6.1	5.1	✪✪✪
M&G Optimal Income	1.2	10.4	0.5	3.4	-0.5	✪✪✪

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 30th June)	2015-16	2016-7	2017-18	2018-19	2019-20	Morningstar Fund Rating
EUROPE						
BlackRock Continental European	6.1	24.6	9.5	9.6	13.1	✪✪✪✪✪
CRUX European Special Situations	14.4	28.5	2.9	1.4	-3.5	✪✪✪
Fidelity Funds – European Growth	6.9	24.0	7.1	4.2	-7.4	✪✪✪
JOHCM European Select Values	13.4	26.8	-4.0	2.8	-14.4	✪✪✪
GLOBAL						
BNY Mellon Long-Term Global Equity	17.5	19.4	12.9	16.7	7.1	✪✪✪✪
Fidelity Global Dividend	23.6	15.0	1.7	17.8	5.0	✪✪✪✪✪
Fidelity Global Special Situations	7.4	31.9	10.1	7.5	8.4	✪✪✪✪
Invesco Global Equity Income	6.1	25.0	6.7	2.5	-5.6	✪✪
Rathbone Global Opportunities	13.7	25.7	19.7	9.4	19.3	✪✪✪✪✪
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	20.1	20.2	8.9	14.7	-4.5	✪✪✪✪✪
JPM US Select	13.2	26.0	12.2	12.7	15.2	✪✪✪✪
Merian North American	17.1	28.6	14.8	6.0	7.5	✪✪✪✪
Schroder US Mid Cap	17.3	24.7	6.1	8.2	-4.6	✪✪✪

STANDARDISED PERFORMANCE DATA (%) OVER THE PAST FIVE YEARS

% (as at 30th June)	2015-16	2016-7	2017-18	2018-19	2019-20	Morningstar Fund Rating
UK						
Fidelity Special Situations	-4.1	30.6	8.2	-2.9	-19.6	★★
Franklin UK Equity Income	6.8	17.8	6.6	2.8	-11.5	★★★★★
J O Hambro UK Dynamic	-6.1	31.7	11.5	-3.3	-23.9	★★
J O Hambro UK Equity Income	-9.3	30.4	13.1	-9.3	-21.1	★★
Jupiter UK Special Situations	-1.6	27.1	6.9	-5.2	-14.4	★★★
Lazard UK Omega	-	20.7	10.1	-4.7	-14.8	★★
Liontrust UK Growth	9.1	20.1	11.4	3.0	-10.2	★★★★★
Majedie UK Equity	-5.6	23.4	7.5	-6.7	-11.4	★★★
Threadneedle UK Mid 250	-10.5	29.5	10.4	-5.0	-10.4	★★★
ALTERNATIVES						
Foresight UK Infrastructure Income	-	-	-	19.0	2.5	-
Invesco Global Targeted Returns	2.2	5.4	-1.8	-1.5	0.1	-
iShares Global Property Securities Equity Index	29.1	5.3	4.3	11.4	-13.2	★★★
Jupiter Absolute Return	11.5	1.1	-2.5	-3.1	-15.1	-
Ninety One Global Gold	86.4	-17.4	1.8	21.9	50.8	★★★★★

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 30.6.15 to 30.6.20. 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	24.5	1.9
Europe	19.3	3.3
UK	17.5	4.1
Japan	17.5	2.5
Asia Pac ex Japan	15.4	2.8
Emerging Market Asia	14.7	2.5
Latin America	18.5	3.1
Central East Europe, Middle East & Africa	12.2	4.2

	Redemption Yield
Bonds	%
ML Global High Yield	6.5
German 10-Year Bunds	-0.4
ML Global Corporates	1.8
UK 10-Year Gilts	0.5
US 10-Year Treasuries	0.6

INVESTMENT PERFORMANCE AT A GLANCE

% (as at 30th June)	3 m	2015-16	2016-17	2017-18	2018-19	2019-20
Shares						
S&P 500	20.5	4.0	17.9	14.4	10.4	7.5
Nasdaq	26.4	34.9	12.7	30.1	7.5	26.6
FTSE All Share	10.2	2.2	18.1	9.0	0.6	-13.0
FTSE 100	9.2	3.8	16.9	8.7	1.6	-13.8
FTSE 250	13.9	-4.6	22.2	10.6	-3.8	-10.0
DAX 30	23.9	-11.6	27.3	-0.2	0.8	-0.7
Euro STOXX	17.8	-13.1	24.3	2.2	6.0	-4.5
Shanghai SE	8.5	-31.6	9.0	-10.8	4.6	0.3
Shenzhen	-0.4	-49.7	58.8	-28.1	5.1	-8.5
MSCI Emerging Markets	18.2	-11.7	24.2	8.6	1.6	-3.1
Nikkei 225	18.0	-21.6	31.1	13.5	-2.6	7.0
TOPIX	11.3	-22.0	32.2	9.7	-8.2	3.1
MSCI World	19.5	-2.2	18.9	11.7	6.9	3.4
Dow Jones Large Cap	21.5	1.5	16.1	12.7	8.7	8.5
Dow Jones Mid Cap	25.0	-0.5	14.9	10.7	6.7	-1.8
Dow Jones Small Cap	25.3	-7.4	16.7	12.8	0.9	-8.5
Bonds						
US 10-Year Treasuries	0.3	10.1	-5.2	-2.6	10.8	16.7
UK 10-Year Gilts	3.6	22.4	-1.5	3.8	7.3	18.1
German 10-Year Bunds	0.3	10.3	-4.3	3.2	7.6	1.9
JPM Emerging Markets Bond Index	9.1	13.2	3.8	-4.3	11.7	1.2
ML Global High Yield	11.5	2.2	12.4	2.1	7.5	-0.6
ML Global Corporates	8.7	5.8	2.6	0.5	7.8	5.8
S&P UK IG Corp Bond	8.4	-11.2	3.4	-1.3	-1.9	3.7
S&P IG Eurozone Corp Bond	6.0	2.0	0.4	1.4	-0.1	-1.3
S&P IG Corp Bond	7.7	3.2	-2.8	-3.9	5.5	6.4
Commodities						
CRB Commodities Index	13.3	-15.1	-8.7	16.3	-7.6	-22.8
Crude Oil (Brent)	82.5	-19.9	-5.8	66.1	-15.8	-38.3
Gold Spot	12.1	12.3	-6.9	0.2	12.1	25.7
LME Copper	21.6	-15.9	22.5	11.8	-9.7	0.4
GSCI Soft Commodities	6.2	15.4	-22.0	0.2	-12.6	-11.3
Silver	29.2	18.2	-12.4	-3.6	-6.2	18.1

Source: Refinitiv, 30.6.20. in local currency terms. Valuations: Source Citigroup Global Equity Strategist – Citi Research, MSCI, Worldscope, FactSet Consensus estimates as at 29.5.20. Bond Yields: Source Refinitiv, as at 30.6.20

Trust us to go further:

- Fidelity analysts: 360 investment professionals around the world
- Fidelity looks after 1.2m UK investors
- Detailed investment approach including direct company interviews

Source: Fidelity as at 31.3.20

For more information

please call
0800 41 41 61
or visit **fidelity.co.uk**