INVESTMENT OUTLOOK

Fidelity Personal Investing's market and investment view

In this issue:

- Volatility on the horizon
- The K-shaped recovery
- Have the investing rules changed?
- Where next for gold?

October 2020

"The V-shaped recovery has run its course, but policy remains supportive."

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	Unchanged	Shares have paused for breath amid heightened uncertainty. They are cheaper than the alternatives, but volatility is likely to spike higher.
Bonds	Neutral	Unchanged	Bonds offer little capital growth at today's valuations and for yield you need to go up the risk scale. Still a good diversifier in your portfolio.
Property	Neutral	Unchanged	Property continues to offer a sustainable yield and has retained its attraction for income-seeking investors despite being expensive.
Commodities	Positive	Unchanged	The case for gold remains intact in a world of great uncertainty, low rates and the risk of inflation in due course. Oil is cheap but could stay so.
Cash	Positive	Unchanged	With volatility likely to increase as the US election and Brexit play out, some dry powder in the form of investable cash will be valuable.

Regions	Current View	3 Month Change	
US	Neutral	Unchanged	The Presidential election will be the key driver this quarter and the outcome is uncertain. A pricey market but central to a balanced portfolio.
UK	Positive	Unchanged	It's easy to justify staying out of the UK market. But the long list of concerns is reflected in a 'pariah' rating which looks increasingly unfair.
Europe	Positive	Unchanged	The European project always makes progress during crises. Plenty of value and political stability are a good combination for investors.
Asia Pacific ex-Japan	Neutral	Downgrade	Valuations for the obvious beneficiaries of the post-pandemic world look stretched. Still attractive on a longer-term view.
Japan	Positive	Upgrade	Japan has plenty of challenges, but a stable new government, domestic reforms and cheap valuations make a good case for some exposure.

Current View: ☑ Positive ⊟ Neutral ☒ Negative

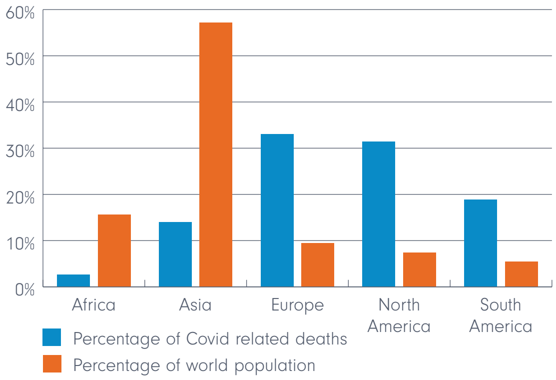
3 Month Change (since the last Investment Outlook): ▲ Upgrade ▶ Unchanged ▼ Downgrade

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

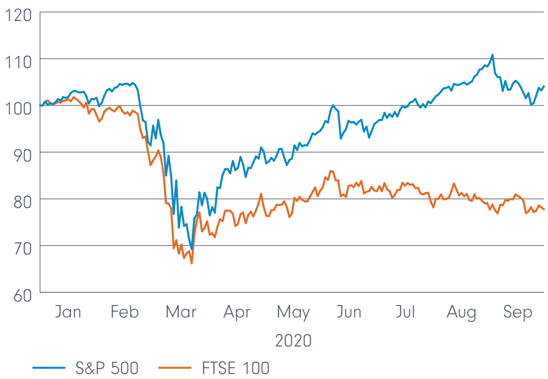
Q3 in three charts

The uneven pandemic

Covid-19 is described as a global pandemic, but its spread around the world has been anything but even. Coronavirus may have made the leap from bats to people in China, but it didn't stay in Asia for long and the death toll has been far worse relative to the size of the population in Europe and the Americas, both north and south. As the chart shows, Asia represents more than half the global population, but so far it accounts for less than 15% of Covid-related deaths. Europe and North America are home to less than a fifth of the world's people but more than 60% of global deaths during the pandemic have been in those rich regions, normally so well protected from plague and pestilence. This tells us less about the disease, of course, and rather more about the differing politics and social norms of East and West. As for Africa – well for once it's been given a break.



Source: Refinitiv, as at 30.9.20



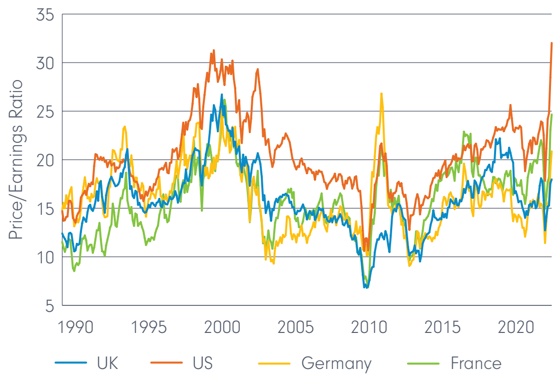
Source: Refinitiv, as at 30.9.20, rebased to 100 on 1.1.20

Same disease, different response

The impact of the pandemic may have been similar on both sides of the Atlantic, but the response of the respective stock markets could hardly have been more different. Both Wall Street and the London market fell sharply in February and March but the recovery in the US has been massively quicker and more powerful than it has been over here. The reasons are not hard to pinpoint. The US stock market is heavily weighted towards the pandemic's winners, notably in technology, while the British index is biased towards the areas that investors have little interest in today – out of favour energy stocks and financials. The other principal cloud hanging over the UK market is, of course, Brexit. In three months, Britain will be out of Europe. What our relationship with our biggest trading partner will look like next year, however, remains a mystery.

Early-cycle valuations or dot.com revisited?

One of the most concerning charts at the moment is this one that shows valuations (particularly in the US) returning to the levels of the late 1990s technology boom. We know how that one ended. Actually, I think there is less to be concerned about than appears to be the case. That's because earnings have been clobbered this time by the pandemic lockdowns around the world. Because share prices have moved quickly to anticipate a profits recovery, there is now a mismatch between reported numbers and share prices. In due course, rising earnings will bring valuation multiples down again, even if share prices stay at their current level. You can see that something similar happened after the financial crisis, albeit to a less alarming degree. Investment metrics can be helpful, but you do need to view them in context.



Source: Refinitiv, as at 1.9.20

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. 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 and other sources. 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; and Natalie Briggs, Europe investment director.

In focus: What next on the radar after Covid?

The calendar quarters of 2020 have differed significantly from each other. In the first three months we experienced a swift move from complacency to panic. The health crisis 'over there' rapidly morphed into a market crisis closer to home as the penny dropped that this was a global problem that recognised no borders. The second quarter saw the economy catch up with investors. It was the worst three-month downturn in activity on record in many places, the UK included. The third quarter has been something of a phoney war, with furlough schemes and pleasant weather disguising the true scale of the crisis.

The next three months are likely to be very different again. For the lucky among us, the biggest problem may be coping with the tedium of working from home as the evenings draw in and the heating goes on. For others, however, the autumn will bring home the harsh reality of an economic disaster postponed. The reduction of government support will see the sharpest rise in unemployment since the early 1980s. The Office for Budget Responsibility forecast in July that unemployment would rise to over 4 million in the final quarter of the year, before averaging 3.5 million in 2021.

That's the first thing we'll be watching closely in the run up to Christmas. The next is Covid-19 itself. The picture on the evolution of the pandemic is mixed and no-one really knows where the infection rate goes from here, how that translates into hospitalisations and deaths, what measures will be required to contain the second and subsequent waves, whether the virus is weakening or mutating, and a whole host of other imponderables. What looks certain is that when the anniversary of the first national lockdown rolls around next March we will not be back to normal.

The third focus in the final three months of the year is Brexit. What is in no doubt now is that the UK will leave the EU at the end of the year. What no-one can predict is what the UK's relationship with the rest of Europe will look like in 2021. The pound is inevitably bearing the brunt of the uncertainty, although the weakness of the dollar has disguised this to some extent. It seems futile to speculate now on whether it is a good or bad thing that we are leaving. But I don't think anyone, had they known what lay ahead, would have chosen to layer such a rupture on top of a global pandemic.

The final big scheduled event in 2020 is, of course, the US Presidential election. This has the potential to be the most important of all from a markets perspective and already the futures markets are anticipating a big spike in volatility around election day. Even putting to one side the prospect of a contested result, the fact that both candidates are plausible winners means that markets will be seriously unsettled. The uncertainty could last longer if lawyers are called in. That's before we've even started calculating the impact on different sectors of a Biden or Trump victory.

Have the investing rules changed?

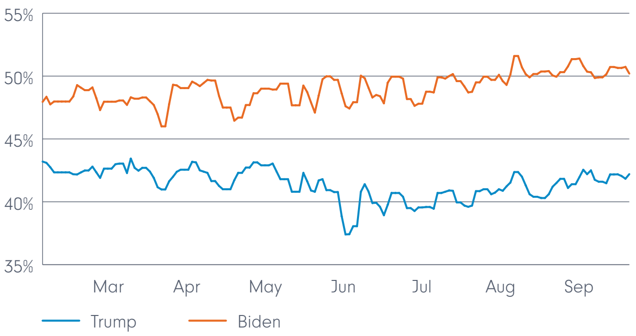
The conventional wisdom says that while the investing environment may change, the fundamental rules of the game remain the same. I wonder. The pandemic has changed many of the things we took for granted about the way in which we worked, consumed, travelled and amused ourselves. Might it also have altered some of the basic truths of how we manage our money?

The first 'rule' that some have started to question is the basic 60/40 balanced fund that has been the bedrock of financial planning in recent decades. In the generally kind markets of the past 40 years or so, holding 60% of your portfolio in shares and the remainder in bonds has been a sensible approach. The shares have provided the growth while the fixed income has offered stability. With interest rates falling to historically very low levels today, both shares and bonds have enjoyed a tailwind.

In the US, where the data is best, this has led to a combined return of around 10% a year over that period from a 60/40 portfolio. That compounds up nicely over time and it's been a fine time to be a baby-boomer investor. But looking forwards the outlook is less clear-cut. Interest rates at or below zero leave little scope for either capital growth or income from government bonds, so investors will need to go up the risk scale to corporate credit. As for shares, there's no technical limit to how high they can go, but valuations are at the top end of their long-term range. At the very least, investors will probably need to hold more shares in future if they want to achieve an acceptable level of return, but that means their portfolios will be more exposed when the inevitable downturns arrive.

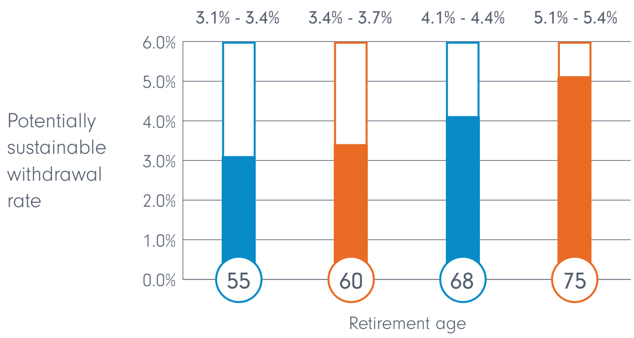
The second investment adage to come under scrutiny recently is the so-called 4% rule. This says that if you only take 4% from your retirement pot in any one year you should avoid running out of money. Again, this rule worked well when capital gains and income together delivered much more than 4% on average each year. Not only were you likely to replace the money you withdrew, you would more than likely keep up with inflation too.

The race to the White House



Source: Refinitiv, as at 28.9.20, national polling, ten poll moving average.

Delay retirement for a higher income



Source: Fidelity International, October 2020. Potentially sustainable withdrawal rate in at least 90% of the projected scenarios assuming death at 93 years.

Again, there's a question mark over this rule. It's still feasible to draw-down 4% a year and to be OK, but it may be prudent to think through the alternatives, however unpalatable they might be: spending less, waiting longer to access your savings or taking a bit more risk with your choice of investments.

Forget the V-shaped recovery, the future is K

In recent Outlooks, we've talked about an alphabet soup of different-shaped recoveries for both the economy and markets. We hoped for the V, feared the L and accepted that the messy reality might resemble a W or Z. What all of these patterns imply, however, is a single direction of travel for all investments – up, down or sideways at the same time. The truth is, however, that the market is an average of both winners and losers. It's time to get our heads around the K-shaped recovery.

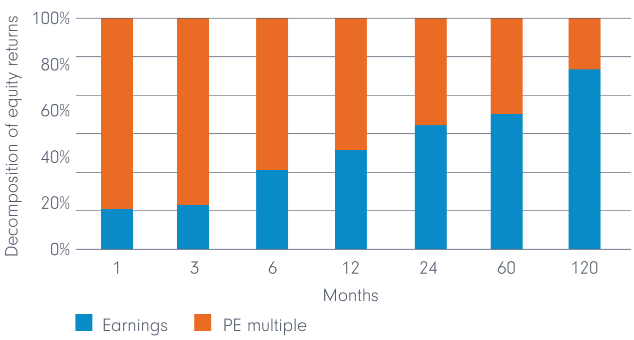
One of the key lessons from this year's pandemic is the way in which pre-existing trends have been accelerated and exaggerated by the Covid outbreak. Companies that were in trouble are in even greater difficulties now, while last year's winners are running ever further ahead of the pack today.

The most obvious winners are the technology stocks which have led the market higher this year. They are benefiting from the digitisation of our lives and the powerful network effects and economies of scale they enjoy. Quite different is the fate of companies in the parts of the economy hardest hit by the pandemic – bricks and mortar retail, banks, travel businesses. It is no wonder that earnings forecasts are diverging so spectacularly at the moment.

The more interesting question for investors is how much of this well-understood story is now priced into markets. In other words, are technology stocks now overvalued and airlines a contrarian value opportunity? My suspicion is that the pendulum has further to swing in both directions. The lesson from 1999 is that 'irrational exuberance' can continue a long time after it is identified.

At some point, value will return to favour but there will be casualties along the way as some business models are simply blown away by the forces unleashed by the pandemic. It's worth remembering, too, that in the long run it is earnings that drive the lion's share of market returns as the chart here shows. You can pay too much in the short term but in time a genuine growth share will come good. A misplaced value bet can always go to zero.

Earnings drive returns in the long run



Source: Credit Suisse, forward looking P/E and earnings per share

Past performance is not a reliable indicator of future returns.

What could go right?

I'm a natural worrier. I should really be a bond investor. I remind myself, therefore, to keep an eye on the glass half full argument so I don't talk myself out of the 'triumph of the optimists' that is the long-term history of stock market investment.

Goldman Sachs is never knowingly pessimistic. So, it's usually safe to go to them for a Pollyanna view of the world. Recently, the bank came up with ten things that might go right with the markets, which I thought I'd share:

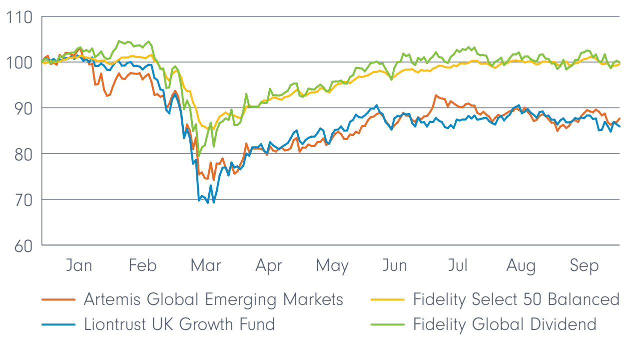
1. The early 'hope' phase of a new market cycle is typically the strongest.
2. The economic recovery will look more durable as a vaccine becomes more likely.
3. Economic revisions are rising.
4. Bear market indicators are not flashing red.
5. Policy support remains strong.
6. Shares are pricing in too much risk.
7. Negative real interest rates support valuations.
8. Shares are a good hedge against returning inflation.
9. Shares are cheaper than corporate bonds.
10. The digital revolution is just getting going.

How are my fund picks doing?

Every quarter I return to the current year's fund picks to see how they are faring. As the chart shows, the first nine months of 2020 have provided yet another divergence – between the two Fidelity funds which have regained all their losses to stand almost exactly where they started the year and the two other picks which have not.

The ***Fidelity Global Dividend Fund*** and the ***Fidelity Select 50 Balanced Fund*** make a good case for the benefits of diversification – geographic and across asset classes too. Unfortunately, the ***Liontrust UK Growth Fund*** and the ***Artemis Global Emerging Markets Fund*** have been too focused on the wrong parts of the market. A good time to remember that we don't invest on a nine-month horizon.

Diverging fortunes



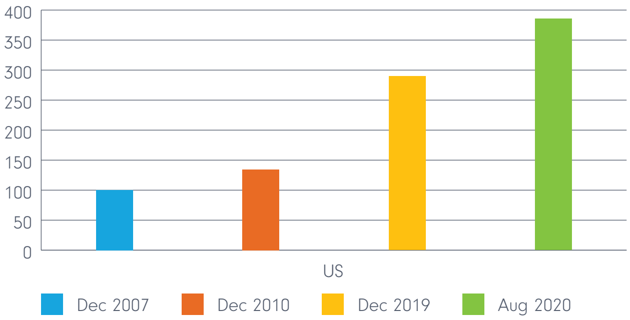
Source: Morningstar, 30.9.20 bid to bid with income reinvested in GBP terms. Excludes initial charge. Figures rebased to 100 on the chart as at 1.1.20.

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.

Asset classes

SHARES

Cranking up the printing presses



Source: Refinitiv, as at 30.9.20, US M1 money supply, rebased to 100

Stock markets are pausing for breath. That's not surprising after the pandemic roller-coaster ride so far in 2020 and with a long list of uncertainties lined up for the final quarter and into 2021.

If you look at the three main market drivers at the moment, however, there is room for cautious optimism. On the Covid front, it remains a mixed picture. So far, the growth in infections has not resulted in significant hospitalisations. But it is still early days in the second wave and how things evolve from here remains uncertain.

On the economy and corporate earnings, things have held up better than expected. The second quarter was as bad as forecast given the extreme measures taken to contain the outbreak. But the dramatic falls in activity are being reversed in the third quarter as predicted. The V may turn into a swoosh, levelling off from here, but this year is no re-run of 2008.

Finally, on policy, the scale and speed of the response to the pandemic has been astonishing. The comparison with the 1930s is instructive. Then, the authorities moved too little, too late. What is now clear is that governments and central banks are committed to doing what they have to. That has important implications for the markets.

It means that interest rates will remain at or below zero for the foreseeable future and that government spending will be higher for longer too. That means avoiding financials and stocking up on housebuilders, construction companies and the like. Inflation will return but not yet. Yields stay low and reliable growth and income remain prized commodities.

It might all look quite familiar. Growth stocks continue to look more interesting than value until a vaccine becomes generally available. When that happens a big rotation may well happen away from technology and towards beaten up areas of the market, but don't expect it imminently. Also, don't discount the possibility that a vaccine turns out to be good for the economy but less so for the market as it provides governments with the cover to reduce stimulus.

Valuations matter but only at market extremes. While technology stocks are expensive, they are not ludicrously so, and multiples present no compelling reason for the recent correction to turn into anything worse. Dividends will start to provide support as companies that have chosen to cut, rather than been forced to do so, reverse those decisions. There is plenty of yield in a market like the UK.

Shares are cheap relative to the alternatives, but the immediate future offers too much uncertainty to be overly optimistic. The next few months will most likely see more volatility than we got used to over the summer.

***Select 50 pick:** As long as shares remain in 'wait and see' mode and volatility is on the radar, there is no merit in going out on a limb. Stay well-diversified and balanced. The easiest way to do this is to consider a good multi-asset fund like the **Fidelity Select 50 Balanced Fund**. Before you invest in a fund, please ensure you have read Doing Business with Fidelity and the Key Information Document (KID) relevant to your chosen fund.*

COMMODITIES

The third quarter was a tale of two halves for the gold price. July and early August saw bullion continue its meteoric rise. Since then it has retreated again to around $1,900. This is not particularly surprising – it has been the pattern of the past two years that sharp rises are interspersed with pauses for breath. It's far too early to call the end of the gold rally.

The reasons for holding precious metals have not gone away. Gold does well at times of uncertainty, when there are concerns about inflation and when interest rates are low. All three of those are as true today as at any point over that two-year period. It's why an estimated $60bn has been invested in gold-backed ETFs this year, significantly more even than during the financial crisis.

This safe-haven buying is actually a bit stronger than it looks because two of the traditional sources of demand for physical gold – India and China – have cooled somewhat in their usual enthusiasm for the metal. In China gold is selling at a discount to the global market price thanks to weak demand and export restrictions meaning there is more than enough of the metal locally.

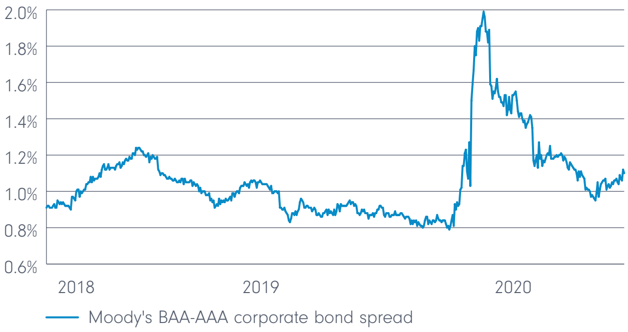
Tracker funds now account for a third of global demand, up from less than a tenth a decade ago. So, it is a concern that inflows to the world's biggest ETF, the SPDR Gold Shares fund, saw withdrawals last month for the first time since the spring.

Gold is obviously less attractive to investors at nearly $2,000 an ounce than it was at $1,200 two years ago, but with volatility likely to spike around the US election, an uncertain path for the Covid pandemic, Brexit getting closer and no sign that interest rates are going anywhere soon, the metal continues to have a role in any portfolio.

***Select 50 pick:** We prefer to play the gold price via a fund of mining shares. If the price rises, then the profits of miners will rise more quickly still. The Select 50's exposure to gold is via the **Ninety One (formerly Investec) Global Gold Fund**. Before you invest in a fund, please ensure you have read Doing Business with Fidelity and the Key Information Document (KID) relevant to your chosen fund.*

BONDS

Risk on, off and on again



Source: Refinitiv, as at 30.9.20

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The big announcement during the past quarter came from the Federal Reserve, which confirmed that it has shifted its focus from containing inflation to promoting growth. Both are part of its remit but at different times the emphasis has been more on one than the other. Today we are seeing the mirror image of the Volcker years when the Fed was prepared to sacrifice jobs on the altar of lower inflation. Today, it's all about employment.

This means that today's interest rates, at or below zero, are here to stay. US rates will most likely remain at their current level for the next four or five years, which means that government bond yields will stay trapped in their current parsimonious range. With no capital appreciation and little income on offer, they will provide ballast in a portfolio but not contribute much to total return.

For that, fixed income investors will need to go up the risk scale into corporate bonds. Here too, however, the risk/reward balance is less favourable because yield-hungry investors have squeezed the spread between corporate and government bond yields. The total return from corporate bonds won't be very different from their income yield from here.

So, there's not great upside, but the risks are also contained thanks to the determination of central banks to keep yields under control. With a buyer of last resort, bonds will continue to provide stability for investors focused on capital preservation.

As with the shares portion of your investments, diversification should be a focus. With inflation in abeyance but not eliminated, some protection can be found in inflation-linked bonds. Emerging markets can offer yield, without a significant addition of risk.

Select 50 picks: *The Select 50 has a broad range of fixed income options, covering the whole spectrum of government, corporate, inflation-linked and emerging market bonds. For investors looking for the safety of government bonds but with a yield focus, consider the* ***Colchester Global Bond Fund****. For diverse corporate bond exposure consider either the* ***Fidelity Strategic Bond Fund*** *or the* ***Jupiter Strategic Bond Fund****. Before you invest in a fund, please ensure you have read Doing Business with Fidelity and the Key Information Document (KID) relevant to your chosen 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 Covid pandemic is really only accelerating and intensifying pre-existing forces. The collapse in rental payments by retail tenants has clearly been exacerbated by lockdown, but landlords were already struggling to collect what they were owed.

Likewise, working from home has become an acceptable, indeed routine, part of almost all office workers' lives but many companies were already heading in that direction before this year's stay at home orders. Pre-Covid, the industry could cope with the shift towards more flexible working because companies were growing and taking on more workers to fill their existing space. Now it is harder to disguise the direction of travel.

What is remarkable is that commercial property is in many cases as expensive as it was before the pandemic. It is almost as if Covid never happened. The reason is simple. There is simply nowhere else that a yield-hungry investor can go for income.

The case for property remains what it ever has been: sustainable income, a high yield and a store of value in uncertain times. Selectivity remains key because the outlook for a secondary retail site is clearly very different from a state-of-the-art logistics warehouse on the edge of a motorway. Understanding tenant quality is a key part of the real estate fund managers' job these days.

And, for end investors like us, choosing the right vehicle in which to hold our property exposure is important too. Open-ended funds attempting to balance the demands of daily dealing with an essentially illiquid asset look wrong. Closed-ended REITs, and funds holding these, look more sensible.

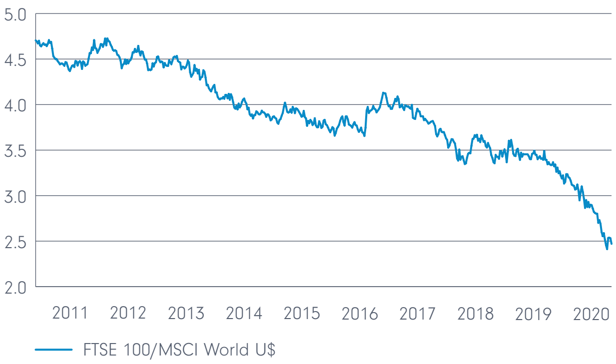
Select 50 pick: *The Select 50's commercial property offering is a fund of funds, which removes the liquidity concern and has the added benefit of geographical diversification. The* ***iShares Global Property Securities Equity Index Fund*** *is one way into the asset class. Before you invest in a fund, please ensure you have read Doing Business with Fidelity and the Key Information Document (KID) relevant to your chosen fund.*

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

The UK market's increasing pariah status



Source: Refinitiv, as at 30.9.20, total returns in local currency

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The UK stock market is starting to get interesting. In an investment world where there is little of obvious value, our home market is an outlier. Measured against global markets, the UK is as low as it has been in nearly 50 years. In absolute terms, the FTSE 100 is well below the level it reached in 1999. A few weeks ago, we learned that Apple is worth more than the whole of our blue-chip index.

As the chart on page three shows, the UK stock market has parted company with the technology-driven US market. Globally, shares have recovered all the lost ground since the March low but British shares are more than 20% lower than they were at the start of the year.

The reasons for this underperformance are well-rehearsed. We don't have any of the FAANG-type stocks that have fuelled the US in recent years. The sectors we specialise in are deeply out of favour – mining, oil and gas, banking. The UK economy was hit harder than most of its developed world peers by the Covid lockdowns. The cherry on this unpalatable cake, of course, is Brexit. If Britain were a middle-aged man, he'd have just got divorced, lost his job and received bad news from the doctor, all at the same time.

There's probably worse to come in the months ahead. The unemployment rate looks likely to rise to levels not seen since the early 1980s when Margaret Thatcher's re-shaping of the UK economy cut a swathe through our industrial heartlands. The refusal of the majority of retail tenants to pay their rent in the last quarter speaks volumes about their confidence. Brexit will be harder than most people voted for. It's not hard to make a case for leaving the UK out of your portfolio completely.

But this is what it always looks like at the bottom. The time to get interested in a market is when everyone is familiar with the bad news. Even if what everyone is worried about has not yet happened. Stock markets are discounting machines, they don't reflect what's happening in the here and now. And the Bank of England is forecasting a big recovery in the third quarter.

A key support for UK shares has always been the income they provide. This dividend support has received a heavy blow this year as some companies have chosen, and some have been forced to, cut their pay-outs to shareholders. Even after these reductions, however, the UK market is yielding close to 4%. As some start to restore their dividends, this income support will get even stronger. With interest rates likely to remain at or even below zero for the foreseeable future, that makes a strong case for investing in UK shares.

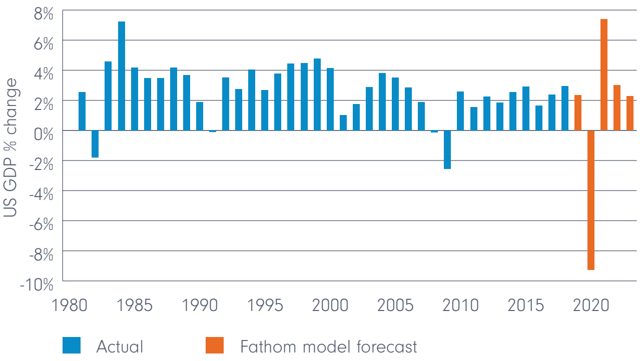
The question then arises whether or not to continue backing the quality, growth shares which have outpaced out-of-favour value shares for so long or to start anticipating a rotation into the cheaper areas of the market. Just as the UK's discount relative to other markets is attracting contrarian interest, so too is the discount of value shares to growth. The good news is you don't have to choose. There are plenty of good options on both sides of this debate. You can own both.

If you are feeling really convinced by the case for UK equities, then you can double up by investing in an investment trust at a discount to the already depressed value of its underlying holdings. There is a wide choice of UK-focused trusts trading at double-digit discounts to their assets. Fidelity Special Values, the closed-ended sister fund to Select 50-listed Special Situations, is currently priced 10% below the value of its assets, for example.

Select 50 picks: *For more cautious investors, not ready to take the value plunge, consider either the* ***Liontrust UK Growth Fund*** *or the* ***Fidelity UK Select Fund****. For a contrarian, value play the* ***Fidelity Special Situations Fund*** *is an option. Before you invest in a fund, please ensure you have read Doing Business with Fidelity and the Key Information Document (KID) relevant to your chosen fund.*

US

US GDP: bouncing back



Source: Refinitiv, as at 30.9.20

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The most important influence on the US stock market in the weeks ahead will quite clearly be the Presidential election. Although the polls currently point to a win for Joe Biden, the Democrat candidate, the experience of 2016 suggests that all combinations of White House and Congress remain possible.

The differences in economic and fiscal policies of the two candidates are significant. This means markets are likely to remain volatile in the run up to the election and quite possibly afterwards as there is a real chance that the outcome could be contested. The futures markets are already flagging heightened volatility in the Vix index, Wall Street's so-called fear gauge.

The market backdrop to the election is particularly unusual this year. On the surface, the US stock market has recovered the losses incurred in February and March, despite a recent retreat from new highs. Look beneath the surface, however, and a more nuanced picture emerges. Although the S&P 500 has risen year to date and is nearly 50% up from the March low, the performance has been very narrowly focused. Indeed, the S&P 500 growth index has returned more than 20% while the value index has fallen by more than 10%.

The performance is even more skewed than this would suggest. The five largest stocks in the US market – Facebook, Apple, Amazon, Microsoft and Alphabet – have risen by more than 40% while the other 495 stocks in the benchmark index have declined by 2%. As a result, those top five stocks now account for a quarter of the value of the S&P 500. That's even more than the 18% share taken by the biggest stocks during the dot.com bubble in 2000.

This backdrop is important in light of the election because which candidate wins could have a big influence on whether or not there is a continuation of this tech-stock dominance or a rotation away from growth and back to out-of-favour value shares. Most importantly, the large fiscal expansion proposed by the Biden camp could boost economic activity and inflation expectations, factors that tend to trigger outperformance by more lowly-rated value shares.

Of course, it is not that simple, because a Biden White House could also implement significant tax reform, representing a risk to corporate profits and so equity prices. The introduction of higher capital gains taxes might threaten the stocks which have delivered the biggest capital gains in recent years.

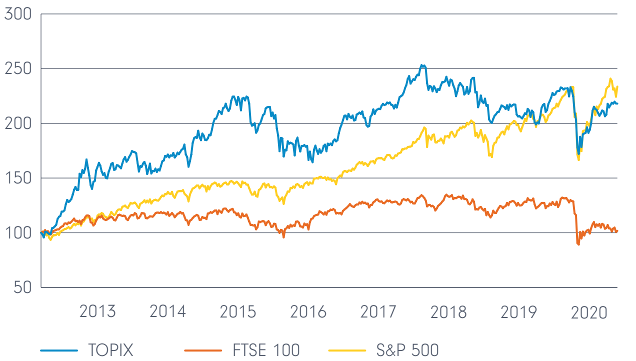
However, one other reason to expect some kind of rotation to value is the prospect of a big pick up in economic activity if a new vaccine gains approval later this year or early next. As growth becomes less scarce, the need to shelter in high growth names reduces. The importance of a handful of tech stocks to the overall performance of the US market, together with its higher valuation than other markets, suggests a need for caution.

That said, no-one is likely to want to abandon a decent exposure to the US in a well-balanced portfolio. Profits growth in the US has been faster than in the rest of the world and will most likely continue that way. Whatever the outcome of the election, America remains dominant in the sectors that should drive the recovery from the pandemic.

Select 50 pick: *One way to tap into the US market, without becoming over-exposed to the tech stocks that dominate it, is via the **Rathbone Global Opportunities Fund**. With a weighting of more than 50% in America, this global fund offers US growth exposure in disguise. Before you invest in a fund, please ensure you have read Doing Business with Fidelity and the Key Information Document (KID) relevant to your chosen fund.*

JAPAN

The Tokyo market is a surprise outperformer



Source: Refinitiv, as at 30.9.20. Total returns in local currency. Figures rebased to 100 on the chart as at 30.9.12.

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. For full 5 year performance figures see page 15.

Everyone knows that the US market has performed well in recent years but how many are aware that, in the eight years since Prime Minister Shinzo Abe began his Abenomics reforms in 2012, Japan has kept pace with Wall Street. The chart here shows that until the last couple of years it was actually outpacing the US by a wide margin.

You would never know that from the interest shown in Japan by international investors, who tend to think of the country as ageing, inflexible and in the shadow of its bigger neighbour China. While Japan does have some deep-seated challenges, there are still plenty of reasons to include an exposure to the Tokyo market in a balanced portfolio.

The first of these is the country's relative political stability, certainly compared with the US and much of Europe, including the UK. The resignation for health reasons of Prime Minister Abe has caused almost no waves in Japan because his successor, Yoshihide Suga, is cut from the same cloth. Suganomics, as inevitably it is being called, will look remarkably similar to the fiscal and monetary support of the past eight years.

One possible difference is being seen as a positive, Suga's greater focus on domestic reform than his more internationally-minded predecessor. Japan is surprisingly old-fashioned in many ways and the need to distribute support during the pandemic has exposed the fragility of its systems and the need for greater digitisation of the public sphere.

Japan is well-placed for a global pick-up in activity and the second quarter is likely to represent the low point for its manufacturing and export sectors. The fall in GDP in the April to June quarter was pretty savage, building on pre-existing weakness after last year's VAT hike, but the third quarter should see a decent bounce. Overall, a 5% fall in output this year will be largely offset by a 3% rise in 2021.

Another reason to take a look at Japan in the post-Covid environment is the relative health of its corporate sector. Japanese firms are generally cash-rich, with much lower debts than their counterparts in other developed countries. We are also beginning to see some real momentum behind necessary corporate re-organisations. The spinning off or absorption into the parent company of listed subsidiaries should eliminate a structure that has rarely been in the best interests of outside shareholders.

The principle reason to get interested in Japan again, however, is the fact that it is cheap. Overseas investors have been net sellers of Japanese shares for many years and that has driven valuations down to significantly lower levels than in other markets. On a two-year view that gets rid of some of the distortions of the pandemic period, shares trade on only 13 or 14 times earnings.

So, Japan offers an attractively-valued market with upside potential as the global economy recovers, strong balance sheets and income opportunities. That should start to bring overseas investors back, especially if more expensive markets like the US start to look less appealing.

In addition to the overall market appeal of Japan, it is worth noting that it is also one of the best markets for stock-pickers thanks to the lack of analyst coverage of many stocks, particularly smaller ones. With global leaders in growth sectors, Japan is worth a second look today.

Select 50 picks: *We have a good selection of Japanese funds on the Select 50. One that we have suggested a few times is the* ***Baillie Gifford Japanese Fund*** *but the* ***Lindsell Train Japanese Equity Fund*** *is also worth considering. Before you invest in a fund, please ensure you have read Doing Business with Fidelity and the Key Information Document (KID) relevant to your chosen fund.*

ASIA AND EMERGING MARKETS

China: getting pricey again

Source: Refinitiv, as at 25.9.20

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.

Asia is starting to get back to normal, with reports from the ground in Shanghai suggesting people are starting to abandon masks as Covid fears diminish. That business-as-usual philosophy is infecting the stock market too, with shares rising further and faster than seems justified by the economic reality. Chinese internet names, in particular, have risen to valuations that will require sustained growth to be justified.

At the other end of the scale, there are plenty of cheap stocks but the lack of investor interest in banks, telecoms companies and energy shares is justified by their structural flaws. The bit in the middle, where investors would hope to find attractive opportunities is offering thin pickings today.

India looks more interesting, despite the scale of infections in the country. The low median age has kept the death rate relatively low and there is less fear as a consequence. The market was hit hard as we went into the pandemic, which was understandable given how expensive India was at the time. Now there are some interesting opportunities, particularly in the financial sector.

South East Asia continues to lag, with tourism in Thailand, for example, only just starting to open up again. There are few structural winners in the region, with the possible exception of Vietnam, but the market here is too thin to make a difference to a global investor.

The pace of recovery will most likely slow from here so the initial snap back in the market may have run its course. Investing in Asia is therefore more about the long-term structural appeal of the region. But that is reason enough to have some exposure.

Select 50 pick: *For long-term investors in Asia, one option is the* ***Stewart Investors Asia Pacific Leaders Fund****, with its focus on the 'social usefulness' of its investments. This makes the portfolio resilient in the face of relentless change. Before you invest in a fund, please ensure you have read Doing Business with Fidelity and the Key Information Document (KID) relevant to your chosen fund.*

EUROPE

European shares sit neatly between the US and UK when it comes to performance to date in 2020. While the US prior to its September wobble had added about 20% this year and the UK had fallen by the same margin, Europe was pretty much back where it started. In valuation terms, too, it sits between the two extremes. So, what is the case for having some European exposure in your portfolio?

On the Covid front, Europe is a mixed bag. Recent second waves show that the region remains vulnerable to further lockdowns. But its test and trace regime is well ahead of those in the UK and US, which points to it joining Asia in the recovery phase of the pandemic. We are already seeing evidence of increased activity, which is now around a third below normal, with much higher proportions of workers back in the office than here in the UK. The bounce back in GDP in the third quarter should be substantial.

When it comes to policy support, Europe has crossed the Rubicon with its €750bn recovery fund. The issue of jointly-funded debt backed by the EU budget, distributing aid according to need, is a watershed moment in the European project, allowing richer countries to pay in more to the benefit of poorer ones. Getting German approval for this is a crucial step towards a genuine fiscal union and has boosted the Euro, which will attract overseas, particularly US, investors.

Another reason to favour Europe today is the sector composition of its stock markets. It is much more heavily exposed to cyclical sectors than the US, something that has held it back during the low-growth post-financial-crisis period, but which will position it well in the vaccine-fuelled recovery to come. Europe is well placed in a broader global recovery thanks to its international reach – more than half of revenues within the MSCI Europe ex-UK index come from outside the region.

Finally, to restate a point we've made before here. Europe is the home of sustainable investing and the region's focus on environmental, social and governance factors is a long-term positive.

Select 50 picks: *Two new European funds made it onto the Select 50 this summer and may be worth considering. The* ***Comgest Growth Europe ex UK Fund*** *is concentrated, with between 30 and 40 stocks and around 70% of the fund invested in healthcare, IT and consumer staples. More diverse and headed by a small cap specialist is the* ***Barings Europe Select Trust****. Before you invest in a fund, please ensure you have read Doing Business with Fidelity and the Key Information Document (KID) relevant to your chosen fund.*

The Select 50 – Our experts' favourite funds

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

STANDARDISED PERFORMANCE DATA (%) OVER THE PAST FIVE YEARS

% (as at 30th September)	2015-16	2016-7	2017-18	2018-19	2019-20	Morningstar Fund Rating
ASIA AND EMERGING MARKETS						
Artemis Global Emerging Markets	36.1	23.2	3.8	3.8	-8.9	✪✪✪
Fidelity Funds – Asian Special Situations	43.1	18.9	4.1	6.9	7.7	✪✪✪✪
Maple-Brown Abbott Asia Pacific ex Japan	31.3	17.4	8.1	-4.0	-13.2	✪
Matthews Asia Pacific	40.7	9.2	6.4	6.2	10.6	✪✪✪✪
Merian Asia Pacific	44.4	29.5	2.7	0.4	11.3	✪✪✪✪
Stewart Investors Asia Pacific Leaders	28.8	4.3	13.8	5.0	8.5	✪✪✪✪
BONDS						
ASI Global Inflation-linked Bond	12.3	-3.5	0.0	9.9	4.2	✪✪✪
Colchester Global Bond	-	-	-	-	2.3	-
Fidelity MoneyBuilder Income	12.5	-0.6	-0.1	9.4	3.5	✪✪✪
Fidelity Strategic Bond†	7.9	1.4	-1.5	7.8	5.6	✪✪✪✪
Invesco High Yield	4.8	11.7	1.0	5.6	-2.5	✪✪
iShares UK Gilts All Stocks Index	13.6	-4.6	0.9	12.9	4.0	✪✪✪
JPM Global High Yield Bond	9.8	6.9	2.2	4.5	0.2	-
Jupiter Strategic Bond	7.0	3.4	-0.5	9.6	3.6	✪✪✪✪✪
M&G Corporate Bond	12.0	0.6	0.3	9.8	2.8	✪✪✪
M&G Optimal Income	6.7	7.2	0.2	3.6	0.7	✪✪✪✪

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

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 September)	2015-16	2016-7	2017-18	2018-19	2019-20	Morningstar Fund Rating
EUROPE						
Barings Europe Select	31.7	22.5	6.3	1.9	6.2	✪✪✪✪
BlackRock Continental European	17.2	21.9	7.1	5.9	24.1	✪✪✪✪✪
Comgest Growth Europe ex UK	-	13.5	16.8	5.9	15.0	✪✪✪✪✪
CRUX European Special Situations	32.9	19.7	0.7	0.3	-1.6	✪✪✪
Fidelity Funds - European Growth	21.9	17.3	7.1	0.5	-7.1	✪✪✪
JOHCM European Select Values	27.3	17.3	-0.7	-6.2	-8.0	✪✪✪✪
Robeco QI Conservative Equities	-	9.6	3.8	7.6	-3.8	✪✪✪✪
GLOBAL						
BNY Mellon Long-Term Global Equity	32.0	12.5	21.5	10.5	8.1	✪✪✪✪
Fidelity Global Dividend	31.7	6.9	8.5	16.6	-0.2	✪✪✪✪✪
Fidelity Global Special Situations	31.5	20.1	14.4	3.8	7.9	✪✪✪✪✪
Invesco Global Equity Income	20.3	19.3	6.2	3.3	-8.9	✪✪
Rathbone Global Opportunities	26.5	16.8	24.3	3.6	27.8	✪✪✪✪✪
JAPAN						
Baillie Gifford Japanese	42.5	19.5	15.8	1.4	7.9	✪✪✪✪✪
Lindsell Train Japanese Equity	48.7	10.5	24.6	-1.9	6.9	✪✪✪✪
Man GLG Japan CoreAlpha	27.2	18.0	10.9	-5.6	-21.4	✪
NORTH AMERICA						
Brown Advisory US Sustainable Growth[††]	-	-	32.2	16.8	28.5	✪✪✪✪✪
JPM US Equity Income	33.9	13.6	16.3	13.0	-7.2	✪✪✪✪✪
JPM US Select	34.0	15.3	22.0	6.5	17.2	✪✪✪✪
Merian North American	36.1	19.5	19.5	3.2	6.4	✪✪✪✪
Schroder US Mid Cap	35.1	12.4	12.8	7.8	-8.4	✪✪✪

[††] Class B Income share class performance

STANDARDISED PERFORMANCE DATA (%) OVER THE PAST FIVE YEARS

% (as at 30th September)	2015-16	2016-7	2017-18	2018-19	2019-20	Morningstar Fund Rating
UK						
Fidelity Special Situations	13.2	19.1	6.3	-3.1	-22.5	★★★
Fidelity UK Select	11.7	11.7	4.8	6.8	-10.0	★★★★★
Franklin UK Equity Income	19.7	10.3	4.1	4.5	-16.2	★★★★★
J O Hambro UK Dynamic	15.5	20.9	6.7	0.9	-30.5	★★
J O Hambro UK Equity Income	10.6	20.9	5.7	-4.4	-29.2	★★
Lazard UK Omega	13.4	13.2	5.3	-3.0	-16.1	★★
Liontrust UK Growth	25.7	11.5	9.4	3.0	-11.0	★★★★
Majedie UK Equity	13.1	13.5	2.8	-2.9	-13.9	★★★
Threadneedle UK Mid 250	2.4	19.9	3.6	-4.2	-3.1	★★★

ALTERNATIVES						
Foresight UK Infrastructure Income	-	-	-	16.2	-0.3	-
Invesco Global Targeted Returns	3.0	2.2	-1.2	-0.2	-1.9	-
iShares Global Property Securities Equity Index	35.1	-2.5	6.0	20.9	-21.8	★★★
Jupiter Absolute Return	7.9	-1.0	-3.6	-2.5	-21.8	-
Ninety One Global Gold	127.7	-16.0	-15.5	59.9	43.0	★★★★★

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 30.9.15 to 30.9.20. 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	26.8	1.6
Europe	21.0	3.0
UK	17.7	3.9
Japan	21.2	2.3
Asia Pac ex Japan	18.7	2.3
Emerging Market Asia	18.2	2.0
Latin America	33.2	2.4
Central East Europe, Middle East & Africa	14.4	3.4

	Redemption Yield
Bonds	%
ML Global High Yield	5.9
German 10-Year Bunds	-0.5
ML Global Corporates	1.6
UK 10-Year Gilts	0.6
US 10-Year Treasuries	0.6

INVESTMENT PERFORMANCE AT A GLANCE

% (as at 30th September)	3 m	2015-16	2016-17	2017-18	2018-19	2019-20
Shares						
S&P 500	8.9	15.4	18.6	17.9	4.3	15.2
Nasdaq	3.1	28.9	17.1	12.7	18.1	25.8
FTSE All Share	-2.9	16.8	11.9	5.9	2.7	-16.6
FTSE 100	-4.0	18.4	11.2	6.1	3.2	-18.1
FTSE 250	1.8	10.2	14.3	4.9	1.2	-11.3
DAX 30	3.6	8.8	22.1	-4.5	1.5	2.7
Euro STOXX	-0.7	0.7	23.9	-2.1	8.9	-8.0
Shanghai SE	7.8	-1.6	11.5	-15.7	3.0	10.8
Shenzhen	11.9	-0.5	17.9	-19.2	16.4	1.3
MSCI Emerging Markets	9.7	17.2	22.9	-0.4	-1.6	10.9
Nikkei 225	4.7	-3.6	26.0	20.8	-7.8	8.7
TOPIX	5.2	-4.2	29.3	10.8	-10.4	4.9
MSCI World	8.1	12.0	18.8	11.8	2.4	11.0
Bonds						
US 10-Year Treasuries	0.1	5.6	-3.8	-4.7	16.8	12.6
UK 10-Year Gilts	-2.1	21.2	-5.8	1.2	21.7	5.0
German 10-Year Bunds	0.5	8.3	-3.9	1.4	11.6	-0.3
JPM Emerging Markets Bond Index	1.8	17.8	2.9	-5.0	8.2	4.8
ML Global High Yield	4.9	12.8	9.8	1.3	5.8	3.9
ML Global Corporate	3.1	8.1	3.0	-1.3	8.7	7.7
Commodities						
CRB Commodities Index	7.7	-3.6	-1.0	8.4	-8.8	-14.0
Crude Oil (Brent)	-0.6	2.5	14.1	43.8	-26.5	-32.7
Gold Spot	3.6	17.3	-3.4	-7.7	22.5	25.4
LME Copper	11.1	-6.4	32.7	-2.6	-9.1	17.1
GSCI Soft Commodities	8.5	32.7	-26.7	-11.8	-7.8	4.1
Silver	25.1	30.6	-14.6	-12.6	14.3	33.8

Source: Refinitiv, 30.9.20. in local currency terms. Valuations: Source Citigroup Global Equity Strategist – Citi Research, MSCI, Worldscope, FactSet Consensus estimates as at 4.9.20. Bond Yields: Source Refinitiv, as at 30.9.20