INVESTMENT OUTLOOK

Fidelity Personal Investing's market and investment view

In this issue:

- Slower but sustainable growth
- Turning cautious on bonds
- Rotation continues
- Fund picks review

April 2021

"After a record-breaking year, the outlook remains positive. With yields rising, however, asset allocation is key."

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 a Fidelity adviser or an authorised financial adviser of your choice.

Asset classes	Current View	3 Month Change	
Shares	Positive	Unchanged	A period of slower but more sustainable gains beckons. The rotation from growth to value looks likely to continue.
Bonds	Negative	Downgrade	The outlook for government bonds is poor as recovery, growth and inflation expectations rise. Spreads are also too tight in corporate bonds.
Property	Neutral	Unchanged	Real estate continues to be under the influence of the 'gravity of yield'. A wall of money is chasing the income it offers yield-hungry investors.
Commodities	Positive	Unchanged	The case for a commodity super-cycle is strong as policy shifts towards redistribution and with a focus on building out green infrastructure
Cash	Positive	Unchanged	With bonds losing their allure as a diversifier in a portfolio, cash becomes even more important as a store of value.
Regions	**Current View**	**3 Month Change**	
US	Positive	Unchanged	The US is exposed to tougher times ahead for growth stocks but policy support and quality argue for maintaining a high US weighting.
UK	Positive	Unchanged	The UK has been out of favour for a long time and the outlook is now much better than still cheap valuations might suggest.
Europe	Neutral	Downgrade	The upsurge in infections means that the European recovery is on hold. After a good run, the region might pause for breath.
Asia Pacific ex-Japan	Positive	Unchanged	A strong case can be made for emerging markets during a global upswing, especially if the dollar weakens from here.
Japan	Positive	Unchanged	The key to Japan is not the domestic market but what's happening globally and that looks positive. Valuations are not demanding.

Current View: Positive Neutral Negative

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

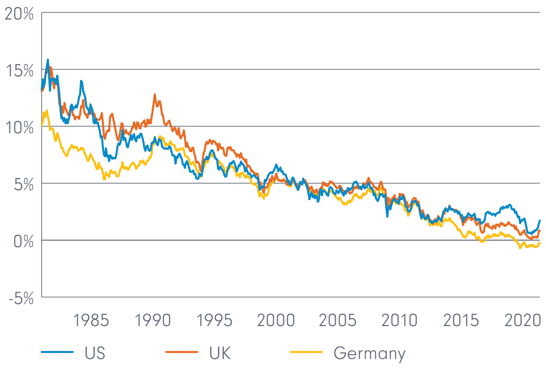
For more market data including full 5 year performance figures see page 15

Q1 in three charts

Pandemic, what pandemic?

The past year has been remarkable in many ways. In terms of stock market performance, it has been exceptional. The 75% rise in the S&P500 in the 12 months from the market low on 23rd March 2020 was the best annual performance since 1936, according to Deutsche Bank. It beat the recoveries from all the legendary bear markets of the past ninety years or so. And as the chart of the MSCI World Index here shows, it has not just erased the losses from last spring but returned the global stock market to its already impressive upward trajectory. It is as if the pandemic never happened. Whether or not that is justified is a key question for investors. Will we look back on this period as we now view the 1987 stock market crash – just a blip in the 1982-2000 bull market? Or have we simply deferred the reckoning?

Source: Refinitiv, 31.3.21. Rebased to 100 at 31.3.09, total returns in USD



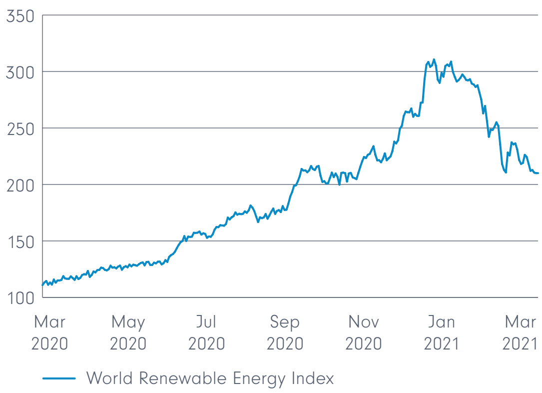
Source: Refinitiv, 31.3.21

Bond yields – another false dawn?

One of the big stories of the first quarter of 2021 has been a rise in bond yields from the rock bottom levels reached at the start of the pandemic. The most widely quoted benchmark – the US Treasury 10-year bond – has seen its yield increase from 0.3% a year ago to around 1.7%. This has contributed to one of the worst quarterly performances by government bonds in the past 40 years and prompted a debate about the future for fixed income investments and the role that they play in a balanced portfolio. It has also been the driving force behind a rotation in stock market leadership from growth to value. As ever, it is worth looking at the context, however. While significant, the latest uptick is hard to spot in the relentless downward drift for bond yields during our investing lifetimes. Plenty of similar rallies have come to nothing. Is this really such a watershed moment? Only time will tell.

Bubble watch

It is hard to argue that markets as a whole are experiencing a bubble, although some parallels have been drawn with the dot.com boom of the late 1990s. The investor euphoria that characterises periods of excess is just not in evidence today. However, there are clearly some pockets of speculative over-reach. The GameStop saga was one such highlight in the first quarter of 2021. Another has been parts of the IPO market, where some flavour-of-the-month shares have enjoyed spectacular market debuts. An area of the market which I flagged up three months ago as one to keep an eye on was the renewable energy sector, which had doubled in six months and looked overcooked. The chart here shows what has happened in the past three months. Momentum investing always looks easy until the music stops. The red flag at the start of the year was valuation – green energy is obviously the future, but the price you pay matters too.



Source: Refinitiv, 31.3.21, rebased to 100 at 31.3.20 in USD

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. 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.

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: Salman Ahmed, Andrew McCaffery, Wen-Wen Lindroth, Jeremy Osborne, Gary Monaghan, Leigh Himsworth, Ayesha Akbar, Jeremy Podger, Neil Cable, Andrea Iannelli, Kasia Kiladis and Natalie Briggs.

Focus: stimulus, inflation, rotation

This time last year, the world outside my window looked much the same but it was a different place. We were just getting to grips with dramatic changes in our lives. Like many other people, I had just started working from home, obviously with no idea that in 12 months' time I would be looking out at the same Magnolia tree coming into blossom, seated at the same desk, writing another April Investment Outlook report – and still stuck at home. I'm glad I didn't know what lay ahead.

In investment terms, it has been an extraordinary period. The V-shaped recovery from last spring's market plunge has been unprecedented. Obviously, we hoped a year ago that the market fall in February and March had been overdone. With 98% of shares below their 50-day moving average, that looked likely. But no-one really foresaw the speed and scale of the bounce – by May, more than 90% of shares were back above that 50-day average. In market terms, it was all done and dusted in three months.

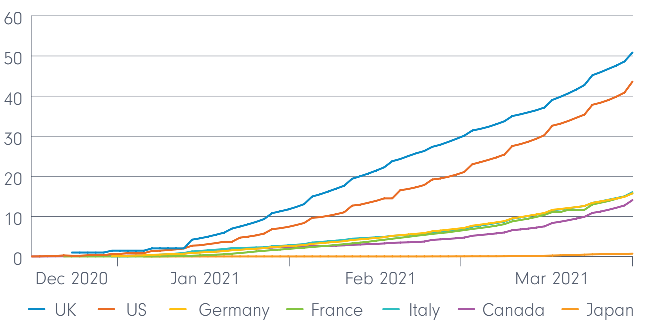
The turning point for markets was coincidentally the day that Britain belatedly went into lockdown – the 23rd March. More importantly from a market perspective, that was the day that the Federal Reserve said it would buy unlimited amounts of Treasury bonds and, for the first time, corporate bonds too. It was America's 'whatever it takes' moment. Governments quickly joined forces with central banks, adding fiscal to monetary stimulus. Markets have done what they have in the past year largely because of extraordinarily bold policy decisions.

There is a market adage that warns against trying to fight the Fed. How much more true the saying is when the Fed and the world's most powerful governments and central banks are acting in concert. You have to go back to the Second World War to witness a similar combination of fiscal and monetary stimulus. Government spending supported by a compliant central bank is a potent cocktail.

The election of Joe Biden in November, and the Democrat sweep in Congress, has enabled a sea-change in economic policy. Add to that the remarkable achievement of the world's scientists in quickly creating viable vaccines and (in the US and UK at least) a successful vaccination programme. Throw into the mix the remarkable adaptability of people to change and the optimism in markets this past year starts to make sense.

UK and US lead the vaccine race

Number of vaccines administered per 100 inhabitants



Source: Refinitiv, 29.3.21, data includes first and second doses

The US is driving the recovery from Covid just as Chinese investment fuelled the recovery from the financial crisis 12 years ago. Including the latest $1.9trn American Rescue Plan, with its $1,400 cheques to most households, the US will have deployed five relief packages since March 2020. In total America will have spent $5.6trn, or 26% of GDP. The White House is likely to follow with another $2-3trn of infrastructure spending. In total, perhaps $8.5trn.

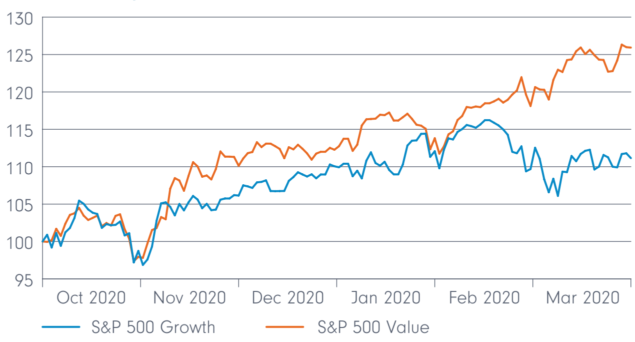
There are, however, no free lunches. Governments and central banks are almost unrestricted in what they can do. But not quite. The bond vigilantes have saddled up in recent weeks and they are looking to hold the authorities to account. Bond yields remain low by historic standards, but they are telling us that you cannot run the printing presses with impunity. It took years for the financial repression of the post-war period to morph into the inflation of the 1970s, and it took the addition of an oil crisis, the Vietnam war and the rise of trade union power, but the reckoning did arrive in due course. It is hard to imagine that there will not be a price to pay at some point.

But history also offers hope. The bull market which began in March 2009 may feel long in the tooth, but the post-war period has given us much longer rallies – from 1949 to 1968 and again between 1982 and 2000. These periods of nearly 20 years each delivered annualised gains of 18% with relatively short pauses for breath along the way. The current bull market is both shorter than the average secular upswing and it has risen less far. Perhaps most importantly, valuations, while above average, are not yet excessive.

Another interesting parallel with these earlier bull markets, is the change in sector and style leadership which occurred about half-way through the previous cycles and which looks to be repeating itself today. The rotation from growth to value, from large to small, from defensive to cyclical is typical of a growth-fuelled secular bull market.

We need to remain nimble. Last year's winners will not necessarily repeat the trick in a new reflationary upswing. The technology shares which have prospered in an environment of low growth and low interest rates will not necessarily lead the pack in a higher growth world. As the chart below shows, the last three months has seen a dramatic divergence between investment styles. Diversification, by geography, by asset class and by sector and style has never been more important.

Value finally starts to outperform



Source: Refinitiv, 31.3.21. Rebased to 100 at 30.9.20, total returns in USD

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

Fund picks review

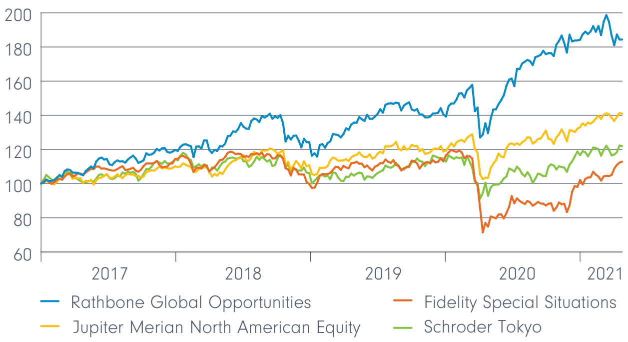
If we are indeed experiencing a watershed in markets, then picking the right funds will matter. When I put together 'Tom's Picks' in December it was against a fast-changing backdrop. I wanted to make sure we were not left out on the wrong side of a leadership shift. I deliberately chose a diversified set of funds focused on three themes – sustainability, income and what I expected to be a better year for the UK.

Before reminding ourselves of this year's picks, however, I want to look a bit further back. My picks are not made with a year's performance in mind but with a longer-term perspective, so this quarter I'm going to reflect on how the picks from the past few years have performed. I still hold all of these in my own portfolio and I'm guessing some of you will too.

Four years ago, at the start of 2017, I was looking for geographic diversification and found it, albeit with a US bias as my global fund pick was weighted towards the world's biggest market. History has dealt kindly with that decision. Of the four picks I made then, what is now called the ***Jupiter Merian North American Equity Fund*** (up 41%) and the ***Rathbone Global Opportunities Fund*** (up 84%) have easily outpaced my Japanese pick (***Schroder Tokyo***, up 22%) and the UK choice (***Fidelity Special Situations***, up 13%).

Overall, however, the four picks have shown that buying and holding is a sensible approach. Only Special Sits has spent a meaningful amount of time below the initial purchase price and waiting for the rotation back to value has paid off.

Fund picks 2017



Source: Morningstar, 31.3.21 bid to bid with income reinvested in GBP terms. Excludes initial charge. Figures rebased to 100 on the chart as at 1.1.17

Past performance is not a reliable indicator of future returns.

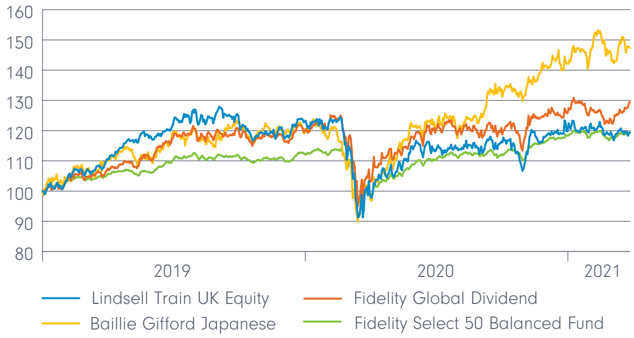
Moving on 12 months to the start of 2018, I limited myself to three fund picks. Again, the emphasis was on geographical diversification, leading me to fund choices for Asia, Europe and a global pick.

Fidelity Global Special Situations has led the pack from 2018 to date, with Jeremy Podger's fund rising 41% over that period. The ***Jupiter Merian Asia Pacific Fund*** took some time to get going but has excelled in the past year to be 22% up. Equity income has struggled, and the ***Invesco European Equity Income Fund*** is up just 2% in three years.

The 2019 picks have experienced an interesting two-year run. The first year started from a low base and was a good period in the markets. Fourteen months in, the four picks from that year endured the horror of last year's pandemic plunge but then picked up the baton again for the past 12 months.

Overall, I'm pretty happy with the performance of ***Lindsell Train UK Equity*** (up 19%), ***Fidelity Global Dividend*** (30% higher), ***Baillie Gifford Japanese*** (with a 47% gain) and ***Fidelity Select 50 Balanced*** (which has risen 19% in just over two years).

Fund picks 2019



Source: Morningstar, 31.3.21 bid to bid with income reinvested in GBP terms. Excludes initial charge. Figures rebased to 100 on the chart as at 1.1.19

Past performance is not a reliable indicator of future returns.

Which brings me to last year's picks. Again, putting your eggs in more than one basket was clearly beneficial. The worst performer (and in fact the only one of the past four years' picks to be under water) is the ***Liontrust UK Growth Fund*** (which has fallen 8% in 15 months). The other three picks from last year have recovered the lost ground from a year ago and are ahead of where they started the year. The ***Fidelity Select 50 Balanced Fund*** (a repeat pick in 2020) is up 6%. ***Fidelity Global Dividend*** (also retaining its place in the picks) has risen 9%. ***Artemis Global Emerging Markets***, a slow starter, is now 10% ahead of where it started last year.

Now, to summarise this year's five picks. The ***Brown Advisory US Sustainable Growth Fund*** looks for companies with a sustainable business advantage. It is a relatively concentrated portfolio, chosen with a firm valuation discipline. A similar sustainable approach, with a focus on companies demonstrating a high degree of 'social usefulness' is the ***Stewart Investors Asia Pacific Leaders Sustainability Fund***. The fund has a long track record of investing sustainably and sticks to large and mid-cap companies.

The second theme is income, something that will continue to be important to investors as central banks remain accommodative for the foreseeable future. The ***Foresight UK Infrastructure Income Fund*** aims for a 5% income stream (not guaranteed) and has a sustainable tilt too because it invests in renewable energy.

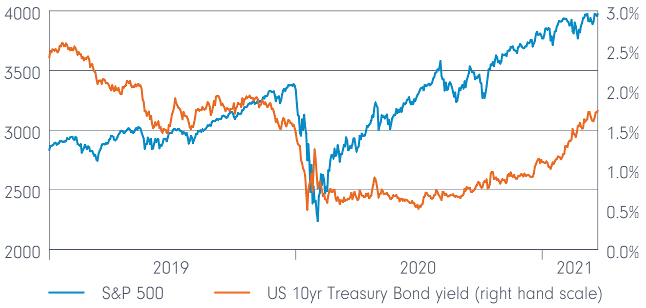
The third theme, a recovering UK, is played via two fund picks this year. ***Fidelity Special Situations*** makes a return visit, which I believe will be better timed than its last outing in 2017. This is a pure value play, looking for companies entering a period of positive change that's not yet reflected in their market price. The ***Fidelity UK Select Fund*** is the growth option that will perform relatively better if the recovery is less exciting than we hope.

Important information: When investing in overseas markets, changes in currency exchange rates may affect the value of your investment. For full 5 year fund performance figures please see pages 12-14.

Asset classes

SHARES

Bond yields catching up with equity optimism



Source: Refinitiv, 31.3.21, total returns in USD

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

Perhaps unsurprisingly, stock markets have lost some momentum in the past three months. They are higher than they started the year but the remarkable recovery that began last March has started to run out of steam. As the old saying goes, it can be better to travel than to arrive.

To understand why investors have become more nervous you need to look not at the stock market but at bonds. While shares were edging towards new highs in the first quarter, it was the 10-year Treasury yield that was capturing the headlines. Bull markets climb a wall of worry and the focus of those concerns today is the risk that maybe we can have too much of a good thing. Stimulus is good but too much stimulus risks re-igniting inflation.

The challenge for investors is deciding what's underlying any return of inflation. If it is a reflection of the re-opening of the economy, the success of the vaccination programme, people getting back to work and travelling again, then that's good news. If it is a reflection of reckless money-printing, a populist desire to maintain people's income whatever the cost, well maybe it's not so helpful.

Unfortunately, we won't know the answers to those questions until it is too late. Managing an economy is an art not a science. It's an ongoing experiment. What we do know is that the stakes are very high. The sums involved are gargantuan.

My gut feeling is that shares will continue to scale the wall of worry this year. Governments are committed to providing the support their economies need. And they have enlisted the support of their central banks. No-one should stand in the way of this determination – and so far it does not look as if they are. Flows into global equity funds in the first quarter stood at record levels.

In a broadly optimistic environment, riskier assets like shares are the place to be and within the stock market more cyclical areas should continue to outperform. The rotation from growth to value looks likely to continue but any sign that bond yields are no longer moving higher may re-ignite interest in last year's winners.

We are clearly moving beyond the Hope phase of the market in which returns are driven by higher valuation multiples and into the Growth phase where rising earnings pick up the baton. The bad news is that price gains in the Growth phase are lower than in Hope. The good news is that this phase of the cycle is usually the longest. A period of lower but more sustainable gains beckons.

This analysis chimes with the assumption that we are part way through an extended post-financial crisis bull market. I suspect that in years to come we will look back on the pandemic as a short and unpleasant shock, which investors ultimately took in their stride.

Select 50 fund picks: *As the analysis of fund picks on page 5 shows, some of the best funds on the Select 50 are to be found in the global category. Investing in this way has the added benefit of being simple, handing the responsibility for geographic allocation to an investment expert. The funds we particularly like are* ***Rathbone Global Opportunities*** *and* ***Fidelity Global Special Situations****. 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

Unlike shares, commodities really do reflect what is going on in the world as we speak. Shares look to the future, but commodities are real assets and their price reflects demand in the here and now. This partly explains why metals and oil have slightly run out of steam in the past quarter. China looks less interested in stimulus than the West and fears of new infection waves have temporarily put the brakes on re-opening in some places.

But the case for a new structural bull market in commodities remains strong once we get over this short-term hump. There are three main drivers. The first is vaccines which will provide a major boost to demand for commodities as people start to travel and consume again.

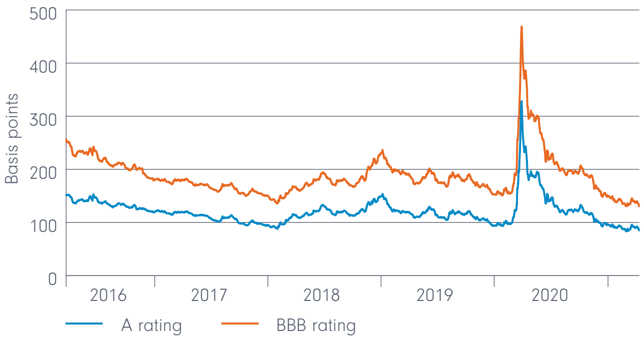
The second driver is also about demand but this time a more permanent shift. It's to do first with governments' approach to the Covid shock, a new focus on income redistribution towards lower income groups who are more likely to consume than save. It's also about solving the climate crisis. Ultimately this will demand huge spending on commodity-intensive infrastructure. Goldman Sachs analysts think that might add up to $16trn over a decade.

The third driver is supply. After years of excess investment and oversupply, the problem now is a lack of spending thanks both to Covid disruption and a desire to invest less and return cash to shareholders. Shortages are already showing up.

Commodities are a great diversifier in a portfolio. During the dot.com crash in 2000, commodity markets rallied strongly even as shares lost half their value. They also perform well in an inflationary environment.

BONDS

Little compensation for corporate risk



Source: Refinitiv, 31.3.21

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Bonds are supposed to be boring. Today they are not. Most investors tend to focus their attention on stock markets, but the headlines are currently all about bond yields. The echoes of the 2013 Taper Tantrum (and earlier disorderly periods in the markets such as in 1994) are loud and clear.

What everyone is focused on is the rise in government bond yields shown clearly in the chart on the opposite page. The rise in yields is the consequence of a fall in bond prices (they move in opposite directions) and bonds have experienced one of their worst quarters in decades.

Bond investors are worried about inflation. They rightly see it as the enemy of fixed income returns. Anyone familiar with the long-term performance of bonds will know that inflation is a killer. And the reason they are worried about inflation? Well you don't have to look further than the US government. Spending $8.5trn on defeating the coronavirus may be the right thing to do but it comes with significant risks.

The past 40 years or so have lulled bond investors into a false sense of security. A generation and more of falling interest rates has provided a tailwind for bonds. With yields close to zero, that bull market has nowhere to go. The only question is whether interest rates and bond yields are anchored at today's low levels or start to rise significantly from here. As the chart on page 3 shows, if they start to rise, they could have a long way to travel.

So, the risk of holding government bonds is higher than we have believed in recent decades. And the return for taking it is paltry. The good news is that after the recent rise, a bond yield can once again fall back to zero, providing a capital gain. In a low interest rate world that might provide some support.

When it comes to corporate bonds, the outlook is not much brighter. As the chart opposite shows, the expectation of an economic bounce back from the pandemic has reduced to historically low levels the gap between safe government bond yields and those on less safe corporate bonds. Investors are now accepting almost no compensation for the greater risks they are taking by lending to companies rather than governments.

It is true that less secure companies (the issuers of so-called high yield bonds) do offer something of a premium. But even here, as the red line on the chart shows, the income is not that much higher when you factor in the greater chance that a company will default.

The area of the bond market that looks most interesting is in emerging markets where both government bonds and corporates offer more yield than in the developed world and arguably not that much greater risk. It's thin pickings though. Bonds offer investors a degree of diversification, but you are paying a high price and taking a big risk for a small benefit.

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 market continues to be driven by the 'gravity of yield'. With an acceptable income hard to find in the bond market, the return on prime property assets of 3-4%, often with long, secure income streams, continues to be compelling. Obviously, property yields need to be higher to reflect illiquidity and depreciation but, even so, the sector is still relatively attractive to income seekers.

The UK is likely to be a beneficiary of this wall of money thanks to the higher yields available here, even after Brexit. The completion of a free trade deal with the EU, albeit with some teething problems, has taken away some of the perceived risks of investing in the UK and an extra 1% of income will at the margin tempt back some capital from the more in-favour European markets.

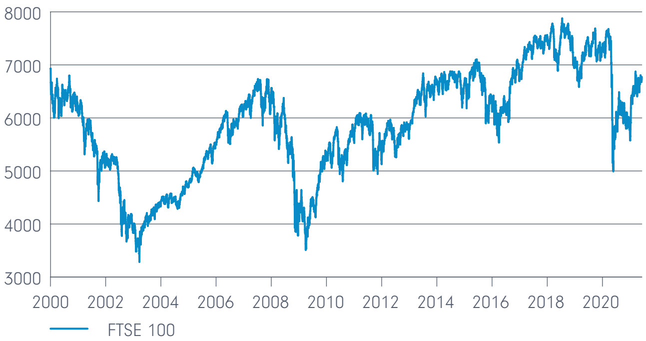
There are risks in the sector. First and foremost, the changing nature of the post-Covid economy means money is pouring into hot areas like online logistics. Expectations of rental growth may be disappointed, and price rises in the sector have been rapid. Another risk is that investors compromise on quality as they chase yield. In a new working world in which offices are competing with desks at home, only the best environments will attract tenants. A third risk is the danger of extrapolating from the experience of the past year into the future. Some things have changed for good; in other ways the new world may look surprisingly like the old one.

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

UK: shares have moved sideways for years



Source: Refinitiv, 31.3.21, in GBP terms

Past performance is not a reliable indicator of future returns. For full 5 year performance figures see page 15.

My five fund picks for 2021 reflect three key themes – sustainability, income and what I believe will be a strong year for one of the world's most out of favour markets, the UK. Recognising that I have been making this case for some time (***Liontrust UK Growth*** was not my best pick last year), I now believe the time has come for our domestic market to pick up some of the lost ground.

The UK has been out of favour for a long time. The Brexit referendum turned many overseas investors off the London market, but it had actually been underperforming well before the vote to quit Europe. With so many good opportunities elsewhere, not least in the US, it was hardly surprising that investors should have shunned the UK.

But this has left the UK trading on a valuation that seems at odds with the country's immediate prospects. The IMF expects a 5.3% rise in GDP this year, faster than for advanced economies generally. UK shares are cheap, however you choose to measure them. Against earnings, against assets and notably when compared with dividends, even after last year's cut in payouts.

In the short term, Britain looks like getting a Covid bounce. Leading the race to vaccinate, in Europe anyway, we are poised to see a faster acceleration in growth than in many other countries. In the longer term we can also expect a Brexit bounce. The discount on UK equities has clearly not yet been unwound in the three months since we avoided a disorderly crash out of Europe.

A key question is what the recovery looks like in the UK and that is why I have chosen two different investment styles with which to play Britain's bounceback. The UK is a more value-focused market, with a weighting towards economically sensitive sectors such as mining, energy and financials. This last area is a particular focus of Alex Wright's ***Fidelity Special Situations Fund***, with insurers and life assurers representing 15% of his portfolio. These companies play to the building back better agenda but trade at bank-like valuations in the single digits.

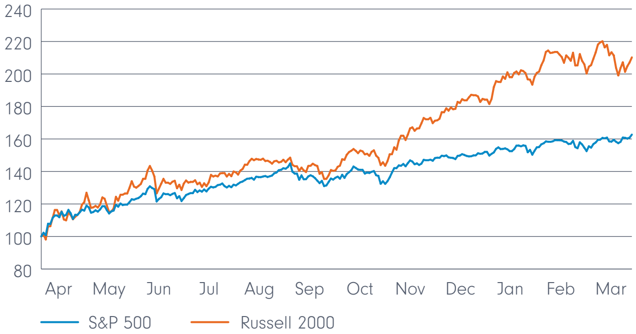
But this is not the only viable approach to investing in the UK. Aruna Karunathilake manages the ***Fidelity UK Select Fund*** with an eye on very different sorts of companies. He focuses on undervalued quality, businesses like Unilever, which he says trades unfairly at a discount to international rivals like Colgate. Or businesses like Next, which stands to pick up market share in the recovery after competitors went to the wall during the downturn.

Sometimes the best investment opportunities are right under your nose. This feels like a unique opportunity to cash in on a long-standing suspicion of our home market. On some measures the UK trades at a discount of 40-50% to other developed markets. That makes no sense when we are poised to emerge more quickly into the post-pandemic world. For once, having some home bias in a portfolio looks justifiable.

Select 50 fund picks: *The UK category of the Select 50 has a wide selection of different styles so a mixture of funds makes sense. As well as the two picks mentioned in the main piece here, last year's pick* ***Liontrust UK Growth*** *and the more value-oriented* ***Jupiter UK Special Situations*** *and* ***Artemis UK Select*** *are worth a look. 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

David versus Goliath



Source: Refinitiv, 31.3.21. Rebased to 100 as at 31.3.20, total returns in local currency

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For much of the post-financial crisis period investing has been pretty simple: make sure you had a big enough exposure to the US and make sure that within the world's biggest market you were exposed enough to high-growth technology stocks. Looking forward things might just be a bit more complicated.

The first part of the equation continues to make sense. Not only does the US represent more than 50% of the value of global stock markets, it is also at the epicentre of the fiscal and monetary stimulus double whammy. What is effectively helicopter money in the form of $1,400 stimulus cheques can only be good news for the US stock market, especially if much of the money gets channelled directly into shares.

The growth forecasts for the US economy this year are spectacular and corporate earnings are certain to follow suit. It is no surprise in the circumstances that bond yields are pushing higher as investors start to price in a reflationary boom in the second half of 2021 and beyond. Pressure will mount on the Fed as the bond vigilantes test the central bank's credibility.

This represents a vastly different landscape from the low growth world of the past 12 years. Since the financial crisis, growth stocks, especially in the US, have outperformed value as they have been viewed as the biggest beneficiaries of a low interest rate, tax-friendly environment in which money has been directed at passive funds. All that changed last November when the first vaccines were announced and since the start of this year sectors such as financials and energy have picked up the baton from tech.

The reason for the shift is the sensitivity to changes in interest rates of so-called long-duration growth stocks which derive a high proportion of their earnings and so stock market value from profits expected far into the future. These future profits are valuable today when discounted back using a low interest rate. As rates increase, their present value diminishes – hence the style rotation we have seen.

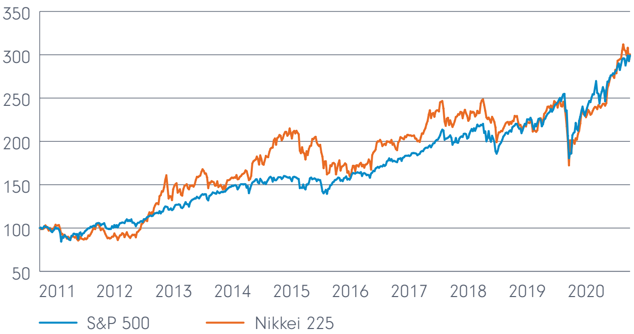
This is not the only issue facing growth stocks. With governments around the world now trying to rein in the power of Silicon Valley's big platforms like Facebook and Google, profits are likely to be under greater scrutiny and a break-up of the biggest companies cannot be ruled out.

On the face of it, that is not good for the US market, which is dominated by these shares. But for the stock-picker it offers plenty of opportunity. Cyclical companies are twice as cheap as growth stocks and they stand to benefit from sharply rising profits in an upturn. The US is arguably in a sweet spot as far as the cyclical recovery is concerned, with a vaccine roll-out that matches our own in effectiveness.

***Select 50 fund picks:** In Tom's Picks for 2021 our US exposure is via the **Brown Advisory US Sustainable Growth Fund**. For investors looking for a more cyclical take on the US market, the **JPM US Equity Income, Jupiter Merian North American Equity** and **Schroder US Mid Cap** funds may be worth a look. 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

Japan: surprising outperformance



Source: Refinitiv, 31.3.21. Rebased to 100 as at 31.3.11 total returns in USD

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 please see page 15.

Japan, as we know, is different. Its economy didn't really shut down in the way that the rest of the world did during the pandemic and things are, if not completely normal, then not far off. Trains are running at 70-80% capacity, for example. Restaurants may be shutting a bit earlier in the evening, but they are still open.

That is not to say that the country has not been affected by Covid. It clearly has. Output fell sharply in the second quarter of last year, bounced back strongly in the second half and is expected to dip again in the three months just past thanks to a winter uptick in infections. While manufacturing surveys are back above the 50 level that separates growth from contraction, that's not the case for services yet.

But the key driver of the Japanese equity market is not the domestic economy. It is what is happening to demand globally. Track the year on year change in the Topix index with global purchasing managers' surveys and the correlation is very close. No surprise then that the Japanese stock market has performed so well recently – it is the ultimate play on a global recovery.

Japan is also an extremely cyclical, value-focused market and the recent rally in Japanese stocks has been driven by a huge rotation from growth, momentum and quality styles towards cyclical value plays. As in the rest of the world, however, there is some catching up still to do. Growth has ruled the roost for a long time.

Japanese value shares are closely correlated also with movements in US Treasury yields. The recent uptick in 10-year yields has mirrored the outperformance of value over growth. This is worth watching carefully if deciding which of the Japanese funds on our Select 50 to use for an exposure to the Tokyo market. The ***Man GLG Japan CoreAlpha Fund*** is a contrarian fund with a value tilt. It invests in out of favour stocks and will be expected to outperform when value as a style is in favour. It has done particularly well in recent months, reversing a weak longer run performance.

Looking at the Japanese market as a whole, valuations are far from demanding. Looking two years out, the Topix index trades on less than 15 times earnings compared with around 18 for the S&P 500. The average price to book value of Japanese shares is just 1.4 against 2 in Europe and the rest of Asia and 4 in the US.

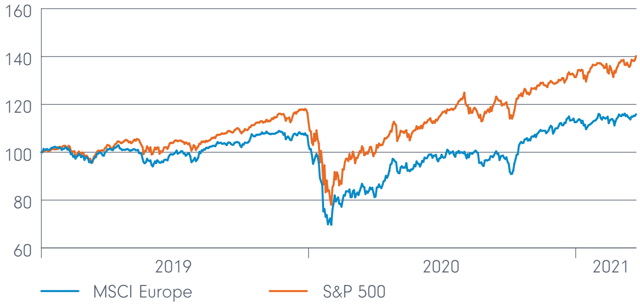
Other reasons to look at the Japanese market today include the recent weakening of the yen. This makes Japanese exports more attractive but also offers the possibility of some currency gain if exchange rates revert to recent averages. Overseas investors are also returning but positioning remains light. There's scope for fund flows to help this year too.

Japan is a curious market. Always seemingly out of favour, it has actually kept pace with the US market over the past 10 years, coinciding with the start of a more business and market-friendly environment under former Prime Minister Abe. It is worth a place in any portfolio, especially ahead of a pick-up in global economic activity.

Select 50 fund picks: *It is definitely worth putting your eggs in more than one basket when it comes to Japan. The three funds on the Select 50 are very different in their approach and will perform in different market conditions. The* ***Man GLG Japan CoreAlpha Fund*** *is enjoying a value rally today but we think the* ***Baillie Gifford Japanese Fund*** *is well managed too. 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

Europe: still some catching up to do



Source: Refinitiv, 31.3.21. Rebased to 100 as at 31.3.19, total returns in USD

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 please see page 15.

European shares have lagged those across the Atlantic but they, too, have enjoyed a good year since the market lows in March 2020. Increasingly a strong growth outlook is priced into the region's shares and the sustainability of today's market levels will depend to a large extent on whether the recent upsurge in Covid infections can be brought under control and an acceleration in the vaccination programme can be implemented.

Relatively speaking, Europe's prospects may start to look better as the year progresses because its recovery has probably been delayed but not seriously impaired by the return of the virus. Europe is likely to be one of the few regions in the world to post higher growth in 2022 than this year. That coupled with the region's exposure to the global reflation story, thanks to its important export sector, positions its stock markets reasonably well despite their run over the past year.

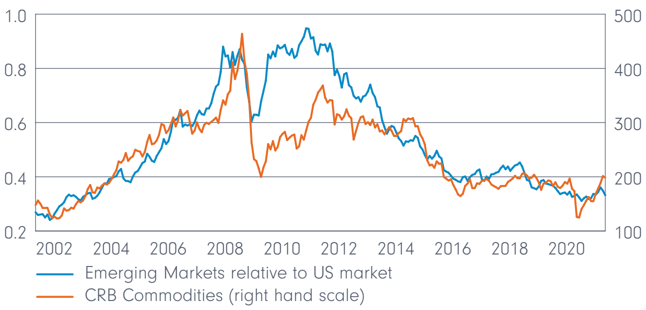
The contraction in earnings last year, at 27%, was no worse than average for an economic downturn. And looking ahead growth is pencilled in at 30% this year and 20% in 2022. That should underpin share prices, especially given the continuing policy support as the regional recovery fund kicks in. Shares in Europe look reasonable value when compared with the region's low-yielding bonds.

As in other markets, cyclical plays look like the place to be positioned. Banks and energy, important sectors in European markets, look attractive. Banks, in particular, do well as bond yields rise and the sector is enjoying strong earnings revisions.

Select 50 fund pick: *We like the look of a new entrant to the Select 50, the* ***Comgest Growth Europe ex UK Fund****. It focuses on high-quality growth stocks and holds shares for the long run so it could hold up well if the recent rise in infections delays the recovery until next year. 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

Emerging Markets track commodity prices



Source: Refinitiv, 31.3.01 to 31.3.21, total returns in USD

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 full 5 year performance figures please see page 15.

A strong case can be made for emerging markets, despite relatively strong performance already during the pandemic period. The first reason to be positive is that emerging markets are well placed to benefit from improved economic momentum around the world. Export data in China and Korea are positive and domestic demand is rising in Brazil, India and Russia.

In terms of valuation, emerging markets look to be at the top end of the long-term range but this reflects the increased weighting of Chinese technology and internet stocks. These companies have a more sustainable earnings profile than the old economy stocks that used to dominate the index and distort the historic comparisons.

Although, the dollar has strengthened recently, the high level of the US fiscal deficit could see the US currency weaken from here, which tends to be a positive for emerging markets. This trend is likely to continue thanks to a widening differential between the resolutely dovish Federal Reserve and the hiking that's emerging in places like Brazil, Russia and Turkey.

Finally, the link between commodity prices and emerging market stock markets could be a key factor as stimulus, supply constraints and the transition to a greener economy drive demand for natural resources. Emerging markets tend to have greater exposure to cyclical, value sectors such as commodities so they are well placed for a rotation of market leadership.

Select 50 fund picks: *We like the* ***Stewart Investors Asia Pacific Leaders Sustainability Fund****, which focuses on 'socially useful' large and mid-cap companies. Last year's pick, the* ***Artemis Global Emerging Markets Fund****, has regained momentum after a slow start early in the pandemic. 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 31st March)	2016-17	2017-18	2018-19	2019-20	2020-21	Morningstar Fund Rating
ASIA AND EMERGING MARKETS						
Fidelity Funds – Asian Special Situations	38.4	13.1	3.8	-11.1	45.7	★★★
Fidelity Funds – Emerging Markets Focus	-	-	-	-7.7	53.8	-
Jupiter Merian Asia Pacific	43.3	16.5	-1.8	-11.7	53.0	★★★★
Maple-Brown Abbott Asia Pacific ex Japan	36.8	2.7	2.2	-24.8	43.1	★
Stewart Investors Asia Pacific Leaders	26.0	0.3	10.3	-9.3	40.7	★★★★
BONDS						
ASI Global Inflation-linked Bond	6.0	1.1	2.2	3.8	4.6	★★★
Colchester Global Bond	-	-	-	-	-2.6	-
Fidelity MoneyBuilder Income	7.7	1.6	3.0	1.3	8.2	★★★
Fidelity Strategic Bond†	4.4	1.7	2.4	0.5	11.0	★★★★
Invesco High Yield	9.8	8.2	0.6	-10.7	25.7	★★★
iShares UK Gilts All Stocks Index	6.7	0.2	3.8	10.3	-5.7	★★★
JPM Global High Yield Bond	13.6	2.5	4.2	-8.2	22.3	-
M&G Corporate Bond	7.6	2.2	2.9	-0.5	10.9	★★★
M&G Optimal Income	8.3	4.2	0.6	-6.2	17.4	★★★★
Principal Finisterre Unconstrained Emerging Market Fixed Income	-	-	1.5	-3.1	14.8	-

† 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 31st March)	2016-17	2017-18	2018-19	2019-20	2020-21	Morningstar Fund Rating
EUROPE						
Barings Europe Select	26.3	10.5	-0.2	-9.9	46.1	★★★★
BlackRock Continental European	19.6	7.7	5.6	3.6	47.2	★★★★★
Comgest Growth Europe ex UK	23.6	4.3	14.6	5.3	28.7	★★★★★
Fidelity Funds – European Growth	29.6	0.2	7.5	-15.5	26.8	★★★
JOHCM European Select Values	25.3	-0.5	-1.4	-24.5	46.1	★★★
Robeco QI Conservative Equities	14.5	3.7	4.6	-7.0	17.0	★★
GLOBAL						
BNY Mellon Long-Term Global Equity	28.0	2.9	20.1	-0.6	28.2	★★★
Fidelity Global Dividend	23.6	-4.5	15.3	1.5	21.4	★★★★
Fidelity Global Special Situations	36.6	4.5	6.3	-4.3	45.7	★★★★
Invesco Global Equity Income	27.5	2.4	3.8	-15.8	40.9	★★★
Rathbone Global Opportunities	24.8	11.7	13.9	3.6	39.5	★★★★★
JAPAN						
Baillie Gifford Japanese	44.2	15.4	-1.1	-8.7	43.5	★★★★★
Lindsell Train Japanese Equity	34.2	20.7	0.5	4.5	-0.5	★★★★
Man GLG Japan CoreAlpha	47.5	1.8	-2.0	-19.2	29.2	★
NORTH AMERICA						
Brown Advisory US Sustainable Growth **	-	-	27.5	7.7	42.3	-
JPM US Equity Income	33.8	-3.5	17.3	-7.2	33.3	★★★★★
JPM US Select	37.4	-2.0	17.2	3.3	41.4	★★★★★
Jupiter Merian North American Equity	39.6	1.0	12.8	-6.2	44.7	★★★★
Schroder US Mid Cap	39.9	-5.2	11.6	-14.8	55.2	★★★
BALANCED						
Fidelity Select 50 Balanced Fund	-	-	4.4	-5.1	19.8	★★★★

** Class B Income share class performance

STANDARDISED PERFORMANCE DATA (%) OVER THE PAST FIVE YEARS

% (as at 31st March)	2016-17	2017-18	2018-19	2019-20	2020-21	Morningstar Fund Rating
UK						
Artemis UK Select	15.1	8.5	-4.2	-20.1	72.8	★★★★
Fidelity Special Situations	21.5	4.4	1.2	-27.8	46.7	★★★
Fidelity UK Select	17.1	-0.3	10.8	-17.2	31.9	★★★★
Franklin UK Equity Income	19.0	1.4	7.5	-18.1	26.3	★★★★★
Jupiter UK Special Situations	28.2	-2.2	2.8	-21.7	38.1	★★★★
Lazard UK Omega	22.0	3.6	-0.4	-22.6	38.3	★★★
Liontrust UK Growth	23.2	2.6	7.2	-14.0	22.6	★★★★
Majedie UK Equity	25.6	-3.1	2.9	-21.3	33.3	★★★★
Threadneedle UK Mid 250	7.3	9.2	-3.8	-18.1	53.3	★★★
ALTERNATIVES						
Aviva Investors Multi-Strategy Target Return	1.5	-0.7	-2.0	1.1	7.1	-
Foresight UK Infrastructure Income	-	-	19.7	-1.1	10.8	★★★★
Invesco Global Targeted Returns	4.2	-0.3	-2.1	1.0	-2.2	-
iShares Global Property Securities Equity Index	16.9	-7.8	21.9	-19.2	22.2	★★★
Ninety One Global Gold	26.1	-9.8	11.8	13.6	18.4	★★★★

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.

PERFORMANCE OF PREVIOUS TOM'S PICKS FUNDS, NOT IN THE CURRENT SELECT 50

% (as at 31st March)	2016-17	2017-18	2018-19	2019-20	2020-21	Morningstar Fund Rating
Invesco European Equity Income	33.4	3.9	-3.9	-22.7	47.8	★★
Schroder Tokyo	36.8	5.9	-4.9	-6.7	23.6	★★
Lindsell Train UK Equity	15.7	8.4	12.9	-5.8	15.3	★★★★★
Artemis Global Emerging Markets	41.8	11.5	0.2	-17.1	41.3	★★★★

Source: Morningstar as from 31.3.16 to 31.3.21. 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

Shares	Price-earnings ratio 2021E	Dividend yield 2021E %
US	22.7	1.5
Europe	16.8	3.1
UK	14.1	4.1
Japan	17.8	2.1
Asia Pac ex Japan	17.5	2.2
Emerging Market Asia	17.4	1.8
Latin America	11.5	3.6
Central East Europe, Middle East & Africa	11.2	4.5

Bonds	Redemption Yield %
ML Global High Yield	4.8
German 10-Year Bunds	-0.3
ML Global Corporates	1.8
UK 10-Year Gilts	1.3
US 10-Year Treasuries	1.7

INVESTMENT PERFORMANCE AT A GLANCE

% (as at 31st March)	3 m	2016-17	2017-18	2018-19	2019-20	2020-21
Shares						
S&P 500	6.2	17.2	14.0	9.5	-7.0	56.4
S&P 500 Growth	2.1	15.4	19.7	12.8	-2.5	59.4
S&P 500 Value	10.8	18.7	7.7	5.9	-12.2	50.4
Russell 2000	12.4	24.4	10.4	0.7	-25.1	92.6
FTSE All Share	5.2	22.0	1.2	6.4	-18.5	26.7
FTSE 100	5.0	23.3	0.2	7.7	-18.4	21.9
FTSE 250	5.4	15.3	5.3	1.0	-18.6	45.1
MSCI Europe	4.2	10.5	15.1	-3.1	-15.0	45.7
Shanghai SE	-0.9	7.4	-1.7	-2.5	-11.0	25.2
Shenzhen	4.2	-0.5	1.4	-10.3	-21.6	39.4
MSCI Emerging Markets	2.3	17.7	25.4	-7.1	-17.4	58.9
Nikkei 225	7.0	15.0	15.7	0.9	-8.8	56.7
TOPIX	8.3	12.3	13.5	-7.3	-11.8	39.3
MSCI World	5.0	15.4	14.2	4.6	-9.9	54.8
China Securities 300	-3.5	2.8	26.2	-5.5	-7.9	50.9
World Renewable Energy Index	-5.1	2.8	1.4	12.7	20.9	186.4
Bonds						
US 10-Year Treasuries	-6.7	-3.0	-1.1	5.5	21.5	-8.1
UK 10-Year Gilts	-5.8	5.7	-0.3	5.9	7.7	-4.4
German 10-Year Bunds	-2.4	-0.4	0.0	7.1	4.1	-1.3
ML Global High Yield	-0.1	13.8	6.7	3.2	-8.3	25.7
ML Global Corporates	-4.3	1.3	6.6	1.3	1.1	11.8
Commodities						
CRB Commodities Index	10.2	9.4	6.4	-3.9	-32.5	52.0
Crude Oil (Brent)	24.0	33.8	32.6	-1.6	-78.1	327.7
Gold Spot	-10.0	1.3	6.1	-2.5	21.6	8.7
Silver	-7.2	16.0	-12.0	-7.9	-7.6	67.6
Copper	13.4	19.2	14.8	-2.9	-23.9	77.9
Aluminium	10.8	29.2	1.8	-4.7	-21.2	46.6
Nickel	-3.2	17.9	33.0	-2.7	-11.3	40.1
Zinc	2.8	59.1	19.4	-8.7	-26.8	48.1

Source: Refinitiv, 31.3.21. in local currency terms. Valuations: Source Citigroup Global Equity Strategist – Citi Research, MSCI, Worldscope, FactSet Consensus estimates as at 5.3.21. Bond Yields: Source Refinitiv, as at 31.3.21

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Source: Fidelity as at 31.12.20

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