INVESTMENT OUTLOOK

Fidelity Personal Investing's market and investment view

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July 2021

"Shares and commodities climb an inflationary wall of worry as the cycle moves from 'hope' to 'growth'."

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	☑	▶	The V-shaped recovery has run its course but there are still good reasons to remain positive about the outlook for stock markets.
Bonds	☒	▶	The reflationary bond sell-off paused in the second quarter, but yields are set to rise over time and corporate bond spreads are too tight.
Property	⊟	▶	In a yield hungry world, real estate continues to have its place in a well-balanced portfolio. A good manager is essential though.
Commodities	☑	▶	The super-cycle took a breather but the case for metals prices to rise sustainably remains intact. Gold is out of favour, perhaps unfairly.
Cash	☑	▶	The 2010 template, when the V-shaped recovery after the financial crisis corrected, makes a good case for holding some cash in reserve.
Regions	**Current View**	**3 Month Change**	
US	☑	▶	The most expensive market, still. But earnings are pushing ahead, and monetary and fiscal policy remain supportive.
UK	☑	▶	Still lagging its peers, the UK remains an unloved market. As we muddle through Brexit, our home market remains an attractive source of yield.
Europe	☑	▲	There's a good case for increasing exposure to European shares on growth, valuation and policy support grounds.
Asia Pacific ex-Japan	⊟	▼	It's even harder to generalise about Asia and emerging markets than it usually is. There are plenty of positives but some worries too.
Japan	☑	▶	Japan is having a tough time this year, but the outlook is improving and there's a mismatch with sentiment and valuations.

Current View: ☑ Positive ⊟ Neutral ☒ Negative

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

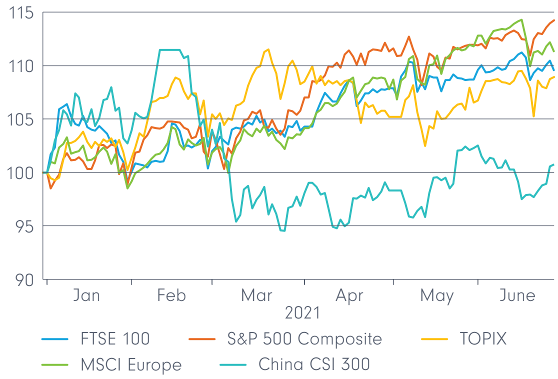
For more market data including full 5 year performance figures see page 15 ▶

Important information: Please be aware that past performance is not a reliable indicator of future returns. 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. 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. Reference to specific securities or funds should not be construed as a recommendation to buy or sell these securities or funds and is included for the purposes of illustration only. The Select 50 is not a personal recommendation to buy funds. This information does not constitute investment advice and should not be used as the basis for any investment decision nor should it be treated as a recommendation for any investment. Investors should also note that the views expressed may no longer be current and may have already been acted upon by Fidelity. 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.

2021: half-time report

Most equity markets enjoy a positive first half

The roll-out of vaccinations throughout most developed countries has allowed investors to look optimistically towards a post-pandemic future in which economies can return to some semblance of normality. The hope phase of the cycle from March to November last year has, therefore, given way to a growth phase in which the main driver of stock markets shifts from rising valuations to real improvements in earnings. Historically, this has tended to see less explosive but more sustainable share price growth. And this indeed is how things have panned out. The V-shaped recovery has run its course, but markets are in the main still rising at a useful rate. Perhaps unsurprisingly, given the scale of fiscal spending and central bank support, the US remains in the vanguard. The exception to the general rule looks like China where a lack of stimulus has dampened last year's first-in-first-out enthusiasm.



Source: Refinitiv, total returns rebased to 100 as at 1.1.21

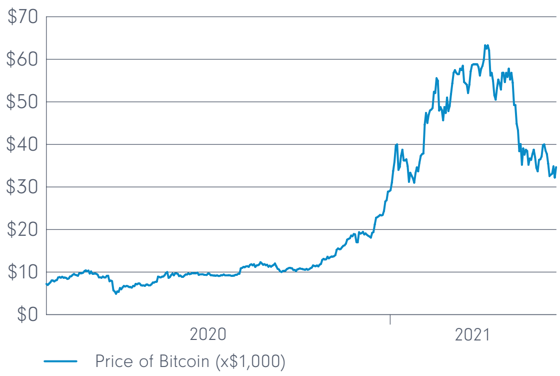
Source: Refinitiv, 30.6.21

Bond yields: the reflation trade that ran out of steam

For fixed income investors, the first half of 2021 has itself divided into two distinct periods. The first three months of the year saw the so-called reflation trade drive bond yields higher in anticipation of rising inflation and, in due course, tighter monetary policy. The 10-year Treasury yield, shown here, rose from 0.9% to 1.75% in a matter of weeks. However, the US central bank has maintained its view that any inflation will be transitory, and investors bought into this dovish position from March. Yields have remained well-behaved despite some at times alarming inflation figures and clear hints from the Fed that interest rates will be hiked sooner than previously forecast. Because bond yields move in the opposite direction to bond prices, the net result for investors has been a capital loss on the bond portion of their portfolio but a smaller one than might have been expected at the start of the year.

Bitcoin, boom and bust

As the equity markets have moved on from 2020's volatility, a new generation has searched for returns outside the investment mainstream. The flagship asset in this regard has been bitcoin, which has the profound advantage for a speculative vehicle of being an impenetrable black box for most of us. This makes it perfect for gamblers. The problem, of course, is that speculative momentum works in both directions and once the cryptocurrency peaked in the spring at around $65,000 there was nothing to provide any support as it headed back to earth. Technical analysts pointed to a floor at about $30,000, and limited supply and growing institutional interest make a case for gains from here, but it is hard to see bitcoin as anything other than an option that could pay off handsomely but might equally end up worthless. Good luck.



Source: Refinitiv, 30.6.21, total returns in USD

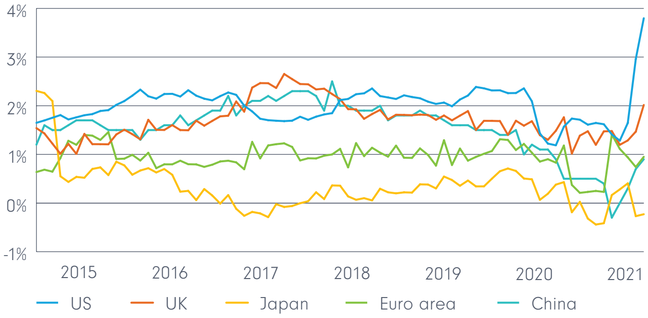
Past performance is not a reliable indicator of future returns. When investing in overseas markets, changes in currency exchange rates may affect the value of an investment. For full 5 year performance figures please see page 15. There is a risk that the issuers of bonds may not be able to repay the 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: prices, picks and the pandemic

There's no doubt what the big investment story is at the half-way stage of the year. As the chart below shows, on either side of the Atlantic, if less so elsewhere in the world, consumer prices are on a tear. The key question is not whether inflation is making a comeback but whether its return is just a rebound from last year's economic shock or something more serious.

Inflation: taking off?



Source: Refinitiv, 30.6.21, Global Core Consumer Price Index (CPI)

There's plenty of ammunition for the inflation hawks right now. Whether you look at consumer prices in America and Britain or factory gate and commodity prices in China, the data are a worry. Anecdotally, too, there's no shortage of stories about businesses struggling to find the right workers and having to pay up to secure them.

But the numbers can be lined up to make the counter case too. Strip out the biggest outliers in the data and the averages look less alarming. Inflation might only be half the recent headline rate in the US. Globally, there are still too many workers for the jobs available. Job creation at the current rate won't fill the gap for at least a couple of years.

Looking back in time for guidance is less than helpful. The 1970s is the principal template but the world was very different then. Inflation was caused by a massive supply shock in the form of the Arab oil embargoes that fuelled the vicious cocktail of low growth and high prices known as stagflation. Today's price rises are a consequence of recovery and growth. That's a very different kind of problem.

But the inflation doves, particularly in America, are taking some risks. Joe Biden is pushing through spending plans that will deliver a federal deficit of nearly 17% this year and 8% next. That's a huge experiment, aided and abetted by the Federal Reserve's unprecedented monetary accommodation.

Central banks are showing the same signs of complacency that they demonstrated under an earlier Fed chair, Arthur Burns, fifty years ago. He chose to dismiss the elements of the inflation basket that were rising inconveniently fast. It was a fatal error that required bold and painful intervention by his successor Paul Volcker. No-one wants to see a repeat of the early 1980s recessions.

Why does inflation matter? It is rightly described as a hidden tax – that's why governments like it in moderation. Even moderate inflation, however, can be devastating to our wealth over time. Prices rising at just 4% a year will cut your purchasing power in half in only 18 years. With longer retirements in prospect, you need to have put aside a great deal for that not to matter.

2021 fund picks

When I picked five funds for 2021 I did so with three principal themes in mind: sustainability, income and what I thought was the unjustified underperformance of the UK stock market. Making my choices in November after the announcement of successful vaccine trials, I also weighed up the likelihood of a rotation from the growth-focused shares that had led the pack for so long.

Six months into the year – and remember this is far too short a time period to draw any really meaningful conclusions – I'm pleased that I covered so many bases. The transition from pandemic to the new normal was never going to be a straight line and we have seen plenty of twists and turns along the way. Investing is rarely an either/or situation and so spreading our eggs around a variety of baskets – whether that's in terms of assets, geography or investment styles – will always be prudent.

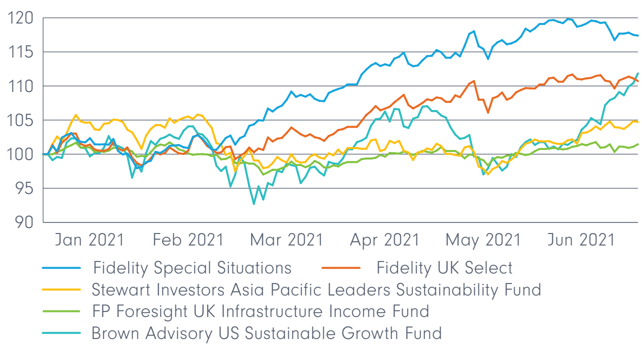
For most of the first half of 2021 the two UK fund picks have outperformed. This does not surprise me. The UK market is both cheap and well-placed to benefit from a pick-up in activity. In that regard, it's also not surprising that the more cyclical, value-focused of the two funds, ***Fidelity Special Situations***, has performed better than the more defensive choice, ***Fidelity UK Select***.

The sustainability theme has clearly struck a chord with investors as the inflows to ESG-focused funds have been strong so far this year. I view sustainability as more a marker of quality than anything else, so I'm very happy to have a weighting towards ESG as a risk-management tool if nothing else. The ***Brown Advisory US Sustainable Growth Fund*** and the ***Stewart Investors Asia Pacific Leaders Sustainability Fund*** both look good still.

As for income, comments from central banks on both sides of the Atlantic confirm that interest rates are going to stay low for some time to come. In that regard, the yield target of the ***Foresight UK Infrastructure Income Fund***, and the reliable source of its income streams, make it a good long-term investment story.

If you are not familiar with this year's five picks, you can read more about them and watch interviews with all five managers. Look for '5 ISA picks for 2021' under the funds tab at fidelity.co.uk.

A decent start to the year



Source: Refinitiv, Morningstar, 30.6.21 bid to bid with income reinvested in GBP terms. Excludes initial charge. Figures rebased to 100 as at 1.1.21

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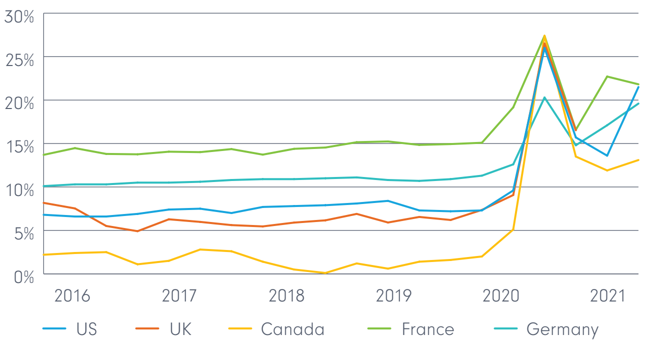
Paying for the pandemic

The dust is starting to settle on the pandemic, and we are beginning to get a sense of its impact and its economic and financial consequences. It is not a simple picture because Covid highlighted many differences and inequalities. Just as the coronavirus affected people's health in very different ways, so the pandemic has not treated us all the same way.

The good news is that the impact of the pandemic appears to have been less than that of the financial crisis. We entered Covid with lower debts and stronger banks. Crucially, the steps taken by governments to protect people's jobs and incomes ensured that a big drop in economic activity did not feed through in the same way into individuals' financial situations. Here in the UK, in the second quarter of last year, GDP fell by more than 13% but household incomes by only 3% on average.

For many, the pandemic enabled us to save more. The chart below shows how the relatively stable savings rates in developed countries spiked higher in the lockdowns of both last year and this. For less fortunate people who spend a higher proportion of their incomes on essentials like food and heat, and whose jobs are more vulnerable, the past 15 months has been a very different story.

Burning a hole in our pockets



Source: Refinitiv, 30.6.21. Household savings, percentage of disposable income.

That will have important long-term consequences. It is no coincidence that speculation has risen in recent weeks about the measures that the Chancellor may be considering to claw back some of the gargantuan amounts of money he has thrown at supporting the economy during the Covid crisis. Unsurprisingly, the measures he is most drawn too are those which target wealthier cohorts. And the perennial favourite – pension tax relief – is back on the radar.

The way pension contributions are taxed makes them disproportionately favourable to higher earners. This is what makes a raid on pension tax relief so politically appealing – targeting people who are rich by most standards and redirecting the money saved to younger people and lower earners makes intuitive sense to a cash-strapped Chancellor.

Of course, we have heard these rumours before, and they have come to nothing as successive inhabitants of number 11 have moved them to the 'too difficult' tray. But forewarned is forearmed. Now would be a good time to look carefully at your tax situation ahead of the Autumn Budget in November and perhaps to take some financial advice.

Sustainability – right thing, right price

Taking account of environmental, social and governance (ESG) factors is not an investment fad. The way that we think about allocating our money is changing for good, in both senses of the word. And sustainability matters to us as investors because it has both an ethical and a financial implication. Companies that score well on these three issues tend to be better companies, so doing the right thing for the world really can also mean doing the right thing for our portfolios.

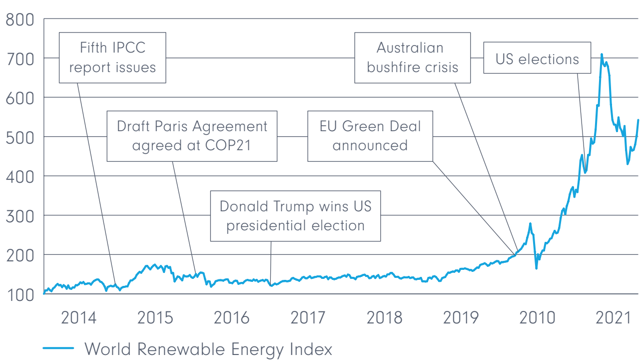
However, the two things are not tied together by divine right. While we should all hope for a world in which companies behave honestly and in the best interests of all their stakeholders and the world they inhabit, we should not invest in them with no heed to the fundamentals. ESG is just as susceptible to over-exuberance as any other investment theme.

The chart below shows what can happen when investors get ahead of themselves. Renewable energy accounts for a massively greater share of the mix than even just a decade ago. It is a remarkable investment opportunity. That does not mean it cannot also be a bubble at times. The correction in share prices in recent weeks shows how risky it can be to chase the latest hot story.

Those of us who want to put our money to work to achieve both acceptable returns and a better world have our work cut out. Two hurdles stand in our way. First, the still glaring lack of consistency in how we measure, or simply talk about, ESG factors. Until there is better agreement on what good looks like in environmental, social and governance terms, there is a risk that the blind will be leading the blind.

Second, as ever when an investment theme is hot, unscrupulous actors will see an opportunity in our well-meaning credulousness. Greenwashing is an ugly word, but it describes a tendency to exaggerate, if not actually to mislead, that we must all be wary of. I'm suspicious of attempts to put numbers on companies' ESG credentials. There is no substitute for the hard work of understanding a fund manager's intentions when it comes to sustainability and checking their claims against the reality of the businesses they invest in.

ESG: over-exuberance



Source: Refinitiv, 30.6.21, total returns in USD.

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Asset classes

SHARES

Stock market investors have moved on from the pandemic even if out in the real world it is far from mission accomplished. It cannot be overstated what an extraordinary period in the markets this has been. From an investment perspective it is as if the last 15 months never took place.

However, it is clear that shares are a great deal less exuberant than they were during the hope phase of the cycle last year. Markets are now grinding higher rather than racing ahead as investors weigh up the pros and cons. For those of us who remember the recovery from the financial crisis in 2009 and 2010 the similarities are striking – and a bit worrying.

Then, a very similar V-shaped recovery from the low point of March 2009 turned into a 16% correction over the summer of 2010. Investors lost their nerve as they sensed a mismatch between the rise in valuation multiples and the absence, yet, of the earnings growth that would justify that re-rating. We cannot rule out a re-run of that this year.

In particular, inflation is back on investors radars, with even the resolutely dovish Fed admitting that prices are rising faster than it had expected. Some valuations, notably of cyclical companies that thrive in an economic recovery, are starting to look a bit stretched. Perhaps most concerning is the fact that we have now run for nine months without a pull-back of more than 5% in global stocks and 16 months since we had a 10% correction or worse. In the past 30 years we have had around 50 retreats of at least 5%. We should expect one at some point soon.

However, there are still plenty of reasons to remain fundamentally bullish. First, fiscal and monetary policy are both supportive. Second, shares are cheap versus less risky assets like bonds and cash. Third, the economic cycle still has room to run before it represents a headwind for shares. Shares don't normally peak until full employment has been reached and the output gap closes.

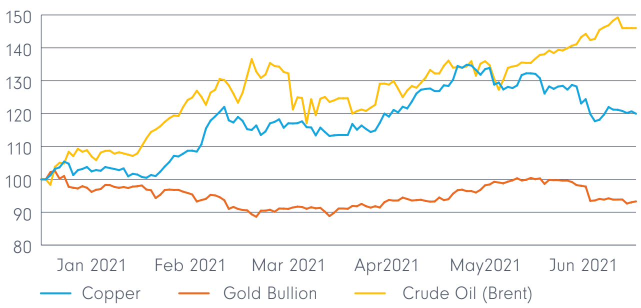
Fourth, the corporate earnings cycle is still positive. It will be harder for companies to beat expectations from here, but forecasts are still strongly positive. Fifth, the market is behaving itself. The air is coming out of individual bubbles (renewable energy, bitcoin, meme stocks) without apparently causing more widespread concern.

And finally, bonds and shares are acting in a similar way (correlated to use the jargon) so many investors are asking why they should put their money in an asset class that offers such poor returns without any diversification benefits. There's plenty of money currently parked in fixed income that could find its way across into the equity market.

Select 50 fund picks: *Investors looking for well-managed global equity funds in the Select 50 are spoilt for choice. Some of our best managers are to be found in this category and we have a decent spread of investment styles to choose from or to mix and match. We like Jeremy Podger's* ***Fidelity Global Special Situations Fund*** *and James Thomson's* ***Rathbone Global Opportunities Fund*** *in particular.* ***Brown Advisory US Sustainable Growth Fund*** *offers a US-biased alternative. Income seekers might look at* ***Fidelity Global Dividend Fund****. Before you invest in a fund, please ensure you have read Doing Business with Fidelity and the Key Information Document (KID).*

COMMODITIES

All that glisters is not gold



Source: Refinitiv, 30.6.21, rebased to 100 as at 1.1.21, returns in USD

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

Commodities has been the best performing asset class in the first six months of 2021, as economies have re-opened and demand for both energy and industrial metals has soared. That short-term boost has built on firm longer-term foundations, with talk of another commodity super-cycle becoming increasingly frequent.

Super-cycles are not common but when they do arrive they can persist for many years. Typically, they require a structural shift in demand for raw materials rather than simply a cyclical upturn in the economy. In the past these have included the industrialisation of the US in the 19th century, recovery from the second world war in Japan and Europe, the widespread adoption of the motor car and the growth of aviation.

This time, commodity bulls are focused on two driving forces. First, the political shift from austerity to fiscal stimulus, investment and social inclusion. This has the potential to trigger a long overdue rebuilding of the crumbling infrastructure in many developed countries, notably the US. Second, and related to the first, is the urgent need to combat climate change, which will require massive spending on green infrastructure.

Obviously, this has more positive implications for industrial metal prices than for oil in the long run. Shorter-term, of course, different factors come into play. The copper price had doubled since the worst of the pandemic slump last year, so it is unsurprising that it has corrected somewhat in recent weeks. The oil price has continued to surge, as OPEC producers have limited supply.

Gold marches to a different beat. Its price is determined by a variety of factors, including safe haven demand, inflation fears, the level of the dollar and real interest rates. The rise of bitcoin stole its thunder; the cryptocurrency's recent retreat may now give the yellow metal a boost.

BONDS

The bond market is where the big investment question of 2021 is playing itself out. Will the inflationary impulses that we are seeing everywhere prove to be short-term and self-correcting – transitory to use the Fed's preferred terminology – or represent the start of a more worrying period of persistently higher prices?

Key to this debate is the credibility of the world's central bankers. On either side of the Atlantic central banks are determined to nudge expectations towards the belief that the retreat from monetary accommodation can be slow and managed. During the first three months of the year they were fighting a losing battle; more recently they seem to have gained the upper hand again.

So, while year to date returns for government bonds have been negative, they have only been modestly so. So far, we have avoided a 2013-style Taper Tantrum. The so-called dot plots, showing rate-setters' expectations for the future direction of interest rates, have brought forward the forecast of when hiking will begin. However, the market largely took this in its stride, pleased that the Fed looked increasingly on top of matters and was unlikely to let inflation rip.

So, government bonds look stable. Corporate bonds look more vulnerable because investors' hunger for yield has driven them to valuations that we have rarely seen in recent years. The extra yield offered by corporate bonds compared with much safer government paper is almost non-existent. Investors are making heroic assumptions about companies' risk of default in their desperation to squeeze out that little bit of extra income.

The fundamental picture for credit is supportive, with company earnings growing fast from last year's low point. But no-one should imagine that spreads can tighten much from here. Investors are always going to require some extra yield to compensate them for the higher risk of lending to a company rather than a government. So, the only way that corporate bonds will offer more to investors than their income is if government bond yields fall. That looks implausible in the absence of an, unlikely, return to widespread lockdowns.

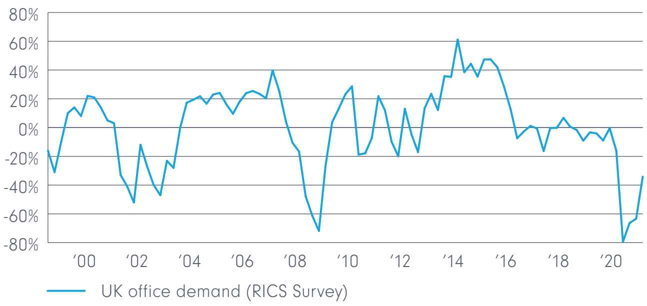
The other reason to be cautious about bonds generally is the increasing correlation between fixed income and equity returns. If the two behave differently an investor can always make the case for holding bonds as a diversifier in their portfolio. If bonds simply mimic equities, it is hard to argue against going all-in to the stock market while the recovery continues.

Select 50 pick: *In the current environment, the most attractive part of the bond universe is probably inflation-linked. The* ***ASI Global Inflation-linked Bond Fund*** *could offer some support in an environment of rising inflation. Before you invest in a fund, please ensure you have read Doing Business with Fidelity and the Key Information Document (KID).*

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

Will we really go back to the old ways?



Source: Refinitiv, 30.6.21

Past performance is not a reliable indicator of future returns.

Property has been the second best performing asset class in the first half of 2021 after commodities, as social distancing rules have been progressively eased and we have been able to think about getting back to work, into the shops and out to enjoy ourselves again.

What is clear, however, is that we are not simply going back to how things were before. Talk of everything changing for good is overdone. We are probably not witnessing the death of the city or the end of the office. However, it is plausible to argue that a decade of change has been compressed into a year or so. The world we return to may look familiar, but it will be different in crucial ways.

The chart here is interesting. It suggests that demand for office space is bouncing back as it did after the financial crisis and before that in the wake of the dot.com boom and bust. It is entirely possible, however, that we never need offices in quite the way we did before the pandemic. We have shown that for many people work is now likely to be a hybrid affair in which we collaborate face to face and do the 'real' work at our desks at home.

The property world is in a state of constant flux. The growth of online shopping creates demand for warehouses, while work from home disperses the centre of gravity of a city. Towns should become less zoned as we work and amuse ourselves closer to where we live. Perhaps most importantly, the property business is running hard to catch up with a climate aware world in which it is currently part of the problem not the solution.

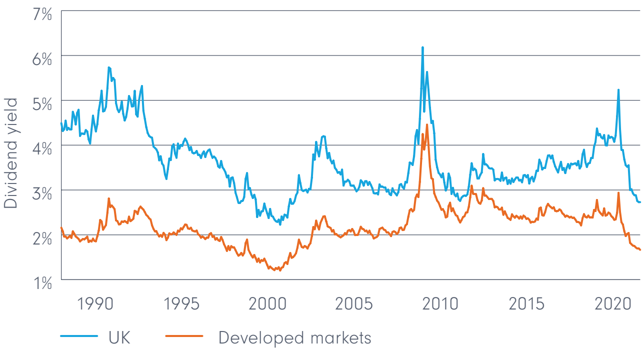
And, in the meantime, real estate continues to offer investors a relatively high (although recently not so secure) income. As a diversifier and source of yield, property has a place in a portfolio, but quality of tenant, selection of manager and choice of sector have never been more important.

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

Yield is still the UK's calling card



Source: Refinitiv, 30.6.21

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Of all the main equity regions, the UK has once again been the laggard during the first six months of the year. No-one will really complain too much about a 10% gain in half a year, but investors still can't quite bring themselves to back Britain. Global shares are up 12%, as is Europe, while the US continues to lead the pack, up 14%.

Perhaps that is not surprising. While the UK has led the way with our impressive vaccine roll-out to a uniquely willing set of jab recipients, that good news story cannot completely disguise our other unique issue – Brexit. The first six months of life outside the EU have been overshadowed by the even bigger story of the pandemic, but the birth pains of global Britain cannot be hidden away completely.

As a pragmatic Remainer, I've always taken the view that we would find a way to muddle through Brexit. And that does look like the most probable outcome. Things are rarely as bad as we fear or as good as we hope and Britain's half-baked relationship with Europe and the rest of the world looks like being neither a completely bad nor a wholly good thing. The economy will probably be smaller than it would have been, travelling will be more difficult and many businesses will wonder whether they are paying the price for an ultimately political project. But we'll survive.

From an investment point of view, it is neither here nor there I suspect. The UK stock market is more global than domestic. And a well-balanced portfolio will anyway have no more than 10-15% invested in UK shares, I would suggest. The disadvantages conferred by Brexit – staff shortages, red tape, delays – are probably priced into a market trading more cheaply than its main rivals.

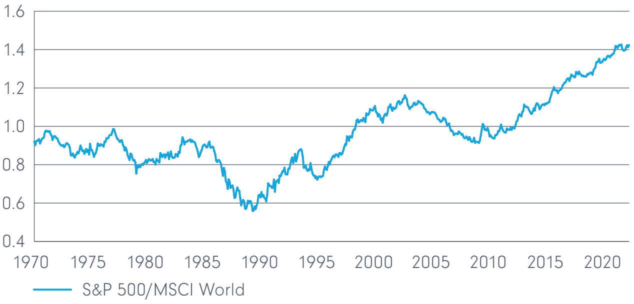
In terms of themes, the time has come to say goodbye to the re-opening story which has run its course. The big story over the coming months will be the progressive unwinding of pandemic-related stimulus (furlough, rent forgiveness), then a reining in of monetary easing, rising interest rates in due course and finally some fiscal retrenchment – in that order. Over time, UK portfolios should become more defensive and focused on long-term growth themes rather than short-term recovery.

The main attraction in today's low-interest-rate world is the UK's high and sustainable dividend culture. With bonds and equities more correlated, it is hard not to imagine money moving at the margin from fixed income into UK shares.

Select 50 fund picks: *our two UK fund picks for 2021 have performed strongly, with* ***Fidelity Special Situations Fund*** *edging* ***Fidelity UK Select Fund*** *as investors played the re-opening trade. I wouldn't be surprised to see that relative performance reverse in the second half, but it still makes sense to have exposure to both growth and value styles. We also like* ***Artemis UK Select Fund*** *and* ***Threadneedle UK Mid 250 Fund****. Before you invest in a fund, please ensure you have read Doing Business with Fidelity and the Key Information Document (KID).*

US

Thirty years of outperformance



Source: Refinitiv, 30.6.21. 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. For full 5 year performance figures please see page 15.

Hindsight is a wonderful thing, unfortunately unavailable to investors. What I would have given 30 years ago when I started writing about stock markets to have been able to see the chart above showing the performance of the US stock market relative to global markets as a whole. There has only really been one determinant of how well you have done as an investor over that period: how much exposure to the US have you had?

Actually, this chart probably underplays the outperformance by the US. Wall Street accounts for around half of the MSCI World index against which we are comparing it here. Part of the comparison is therefore with itself. Against the FTSE 100 over the same period, the S&P 500 has done twice as well. If you had invested £100 in the UK stock market in 1990 you would have around £300 today. The same amount invested in the US would have given you £1,200.

The two periods of massive outperformance in the past 30 years were, not coincidentally, periods in which technology stocks led the market higher- during the dot.com bubble years and in the post-financial crisis period. The bit in the middle when the US lagged the rest of the world was when investors had their eyes on China and the commodities it was sucking up as it cemented itself as the workshop of the world.

If we were able to look at this same chart for the next 30 years, what would it show us? If only we knew. History, and this chart, suggest that relative performance goes in cycles and that starting valuation is the best indicator of future returns. On that basis, I would be less bullish about US stocks today than I should have been three decades ago. Wall Street trades at a significant premium to other markets, however you measure it – against earnings, assets or dividends.

And yet, it is still easy to make a strong case for backing America. It leads in the industries of the future. It has demographics on its side. It is uniquely well-endowed with resources, space, people and entrepreneurial drive. Its political institutions have been tested in recent years and come through, a bit battered and bruised, but intact.

America's response to the pandemic has not been perfect but it is largely open for business again. It is creating jobs and making profits. The US economy will probably grow at more than 7% this year. Earnings are forecast to be 63% higher year on year, albeit this is by far the most generous comparison with the worst of last year's pandemic lockdown. It would frankly be a bit surprising if the US market were not rated a bit more highly than others around the world.

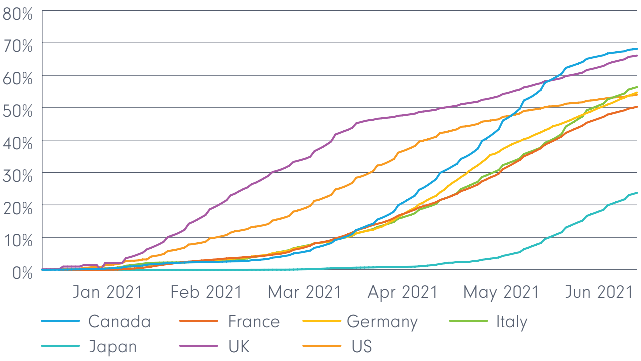
The risks to the US stock market are well understood. Inflation is clearly back on the radar; the only question is whether the rise above 5% is transitory, as the Fed believes, or something more entrenched. The longer-term worry is not that the Biden administration spends big but that it does so unwisely. The related concern is that the Federal Reserve repeats the mistakes of the 1970s, seeing only what it wants to see in the inflation data and falling behind the curve.

All of these are real concerns. But another risk is the one that more people have succumbed to over the years. Thinking that American leadership could not last. This is not the time to lose the faith.

Select 50 fund picks: *There's a good selection of US-focused funds on the Select 50. Sustainable growth is well catered for by one of our 2021 picks, the* ***Brown Advisory US Sustainable Growth Fund****. The* ***JPM US Select Fund*** *is another strong performer. We also like the* ***Rathbone Global Opportunities Fund****, which has an overweight to the US market. Before you invest in a fund, please ensure you have read Doing Business with Fidelity and the Key Information Document (KID).*

JAPAN

Catching up after a slow start



Source: Refinitiv, 30.6.21, percentage of population who have received at least one Covid vaccination dose

This has not been an easy year for Japan. Look at the vaccination charts, and the country stands out like a sore thumb. It has lagged far behind other developed nations in getting its people jabbed and that has been reflected in a testing fourth wave of infections and extended state of emergency and social restrictions.

There are good reasons for Japan's slow progress in tackling Covid. Back in the 1970s a number of vaccination scandals led to a very high bar for drug approvals. Local trials are a requirement for foreign medicines, so getting US and European jabs to market has been a painfully slow process.

After a strong recovery in the second half of 2020, therefore, 2021 has seen the economy in retreat. GDP fell by nearly 4% on an annualised basis in the first quarter and the consensus for zero growth in the second three months to June may turn out to be a bit optimistic. Manufacturing is doing better than services but even here there has been a downturn more recently towards the 50 mark that separates growth from contraction.

All of this has been reflected in the performance of Japanese shares so far this year. Only the Chinese, struggling with a lack of stimulus, have fared worse as an East-West split has opened up in global markets.

From a corporate perspective, rising input costs pose a problem for Japanese companies, which tend not to pass rising raw material prices onto consumers for whom a lack of inflation is a given after years of stagnation. This means that margins could come under pressure.

On the other hand, Japan is particularly exposed to an uptick in global economic activity and we are seeing strong recoveries the world over. If there is a technical recession in the first half of 2021 it should be short-lived. A fall in the yen will also help. Many forecasts are premised on an exchange rate of 105 yen to the dollar and currently it is closer to 110. That makes a significant difference and the Nikkei index is always heavily influenced by the currency.

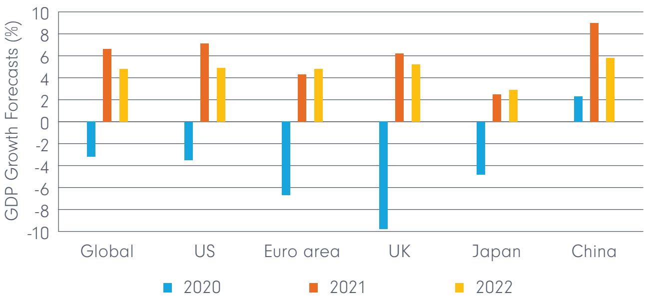
As ever, the reason to favour Japan is its undemanding valuation. On the basis of forecast earnings over the next 12 months, the Japanese market is significantly cheaper than both the US and European shares. The forward PE in Japan is about 14, versus 16 in Europe and 20 in America. When it comes to book value, the difference is even more pronounced – 1.3 times assets in Japan compared to more than 4 in the US.

The time to get interested in any market is when there is a mismatch between prospects and valuation. That disconnect is striking in Japan today.

Select 50 fund picks: *The three Japanese funds on the Select 50 have very different styles. For value, the* ***Man GLG Japan CoreAlpha Fund*** *is the pick. Less cyclical is* ***Lindsell Train Japanese Equity Fund****. For consistent performance through the cycle, we like* ***Baillie Gifford Japanese Fund****. Before you invest in a fund, please ensure you have read Doing Business with Fidelity and the Key Information Document (KID).*

EUROPE

Only Europe and Japan will grow faster in 2022 than 2021



Source: Morgan Stanley Research estimates, July 2021

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

You have to go back 20 years to the end of the dot.com bubble in search of a time when Europe was the world's best-performing stock market. Could this be its moment in the sun again? There is a reasonable case to be made for the region today. First, economic momentum in the region is as good as or better than anywhere else and recovery is less well advanced so should keep going after other regions have started to slow.

Europe is particularly exposed to a pick-up in global economic activity, given its strong export sector. This in turn is leading to good growth in earnings per share at the corporate level, perhaps 40% this year and another 15% in 2022. This will attract global investors, for whom Europe has long been very low on the list of attractive investment destinations

Valuations are significantly lower in Europe than in the US. European shares have a further advantage in the complete lack of competitiveness of the region's bond market. With bund yields in negative territory, shares look a much better bet. As recovery becomes entrenched, bond yields should head back to zero by next year. This should be viewed positively by investors and will be particularly good news for the region's big financials sector. Europe tends to be a beneficiary of a more inflationary environment.

Select 50 fund picks: *The* ***Barings Europe Select Trust*** *is a small and mid-cap focused fund, which might blend well with a fund looking for quality and low volatility like the* ***Fidelity European Growth Fund****. Both the* ***BlackRock Continental European Fund*** *and* ***Comgest Growth Europe Fund*** *have a focus on more defensive shares. Before you invest in a fund, please ensure you have read Doing Business with Fidelity and the Key Information Document (KID).*

ASIA AND EMERGING MARKETS

India is looking through its pandemic woes

Source: Refinitiv, 30.6.21, total returns rebased to 100 as at 30.6.16

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.

It's probably unhelpful to lump Asian and emerging markets together at the best of times but never more so than now. Take China and India, the two biggest markets. China emerged early from the pandemic; India is still very much in its grip. From an investment perspective, however, China has gone nowhere in the past six months while India has soared from an already expensive starting point.

The China story reflects its rapid recovery, in both market and economic terms, last year and the fact that Beijing has held back this year from the kind of stimulus that the West is still hooked on. There's a regulatory angle too, with high-flying technology and internet stocks under increasing scrutiny. India, by contrast, goes from strength to strength, as the chart shows. Investors who were looking through the pandemic to earnings a year or two out are now blithely talking about what 2025 holds. It feels very frothy.

The other key story for emerging market investors is commodities, as there is a close correlation between the two. Despite the pull back in copper recently, the stars look aligned for some kind of commodity super-cycle. That's good news for emerging markets. So too is the likelihood that the dollar will in due course reflect America's rising deficits. A weaker US currency is generally beneficial for emerging markets.

Emerging market investing is not without risks. In some countries, debt to GDP ratios are too high for comfort. Until vaccines are shared more equitably around the world, the pandemic poses a persistent threat too. Inflation is a two-edged sword thanks to emerging markets' commodity exposure.

In terms of valuations, emerging markets look sensibly priced. The price-earnings multiple of the index is around 18 times this year, which is broadly in line with sales and dividend growth expectations.

Select 50 fund picks: *Our favoured pick in the Asian region is the* ***Stewart Investors Asia Pacific Leaders Sustainability Fund****, which, as its name suggests, looks to invest in bigger, reliable companies that will benefit from the Asian growth story for years to come. Before you invest in a fund, please ensure you have read Doing Business with Fidelity and the Key Information Document (KID).*

The Select 50 – Our experts' favourite funds

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

STANDARDISED PERFORMANCE DATA (%) OVER THE PAST FIVE YEARS

% (as at 30th June)	2016-17	2017-18	2018-19	2019-20	2020-21	Morningstar Fund Rating
ASIA AND EMERGING MARKETS						
Fidelity Funds – Asian Special Situations	29.9	8.2	5.9	-0.3	29.1	✪✪✪
Jupiter Merian Asia Pacific	41.9	13.0	-1.4	3.9	30.6	✪✪✪✪
Maple-Brown Abbott Asia Pacific ex Japan	29.5	6.1	2.1	-18.3	26.8	✪
Stewart Investors Asia Pacific Leaders	14.5	8.5	7.2	1.9	26.4	✪✪✪✪
BONDS						
ASI Global Inflation-linked Bond	1.0	1.4	5.2	6.1	2.3	✪✪✪
Colchester Global Bond	-	-	-	6.6	-7.0	-
Fidelity MoneyBuilder Income	5.2	0.5	5.6	5.0	4.1	✪✪✪
Fidelity Strategic Bond[†]	3.7	-1.0	6.6	4.5	5.5	✪✪✪✪
Invesco High Yield	13.0	3.0	4.1	-2.7	17.5	✪✪✪✪
iShares UK Gilts All Stocks Index	-0.3	2.1	5.0	11.2	-6.4	✪✪✪
JPM Global High Yield Bond	10.7	1.5	5.5	-2.6	15.4	-
M&G Corporate Bond	5.9	0.4	6.1	5.1	3.8	✪✪✪
M&G Optimal Income	10.4	0.5	3.4	-0.5	10.1	✪✪✪✪
Principal Finisterre Unconstrained Emerging Market Fixed Income	-	1.4	7.1	2.3	7.8	-

[†] 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 30th June)	2016-17	2017-18	2018-19	2019-20	2020-21	Morningstar Fund Rating
EUROPE						
Barings Europe Select	32.7	7.4	4.4	0.0	27.3	★★★★
BlackRock Continental European	24.6	9.5	9.6	13.1	38.0	★★★★★
Comgest Growth Europe ex UK	20.8	11.1	10.6	13.2	22.6	★★★★★
Fidelity Funds - European Growth	24.0	7.1	4.2	-7.4	13.9	★★★
JOHCM European Select Values	26.8	-4.0	2.8	-14.4	27.1	★★★
GLOBAL						
BNY Mellon Long-Term Global Equity	19.4	12.9	16.7	7.1	19.4	★★★★
Fidelity Global Dividend	15.0	1.7	17.8	5.0	10.4	★★★★
Fidelity Global Special Situations	31.9	10.1	7.5	8.4	23.8	★★★★★
Invesco Global Equity Income	25.0	6.7	2.5	-5.6	26.2	★★★
Rathbone Global Opportunities	25.7	19.7	9.4	19.3	24.4	★★★★★
JAPAN						
Baillie Gifford Japanese	34.6	16.1	0.4	4.7	18.0	★★★★★
Lindsell Train Japanese Equity	26.1	23.1	-5.3	12.8	-10.1	★★★
Man GLG Japan CoreAlpha	42.1	4.9	-2.3	-15.2	21.8	★
NORTH AMERICA						
Brown Advisory US Sustainable Growth	-	-	-	-	24.9	-
JPM US Equity Income	20.2	8.9	14.7	-4.5	25.6	★★★★★
JPM US Select	26.0	12.2	12.7	15.2	26.4	★★★★★
Jupiter Merian North American Equity	28.6	14.8	6.0	7.5	28.4	★★★★
Schroder US Mid Cap	24.7	6.1	8.2	-4.6	31.9	★★★

STANDARDISED PERFORMANCE DATA (%) OVER THE PAST FIVE YEARS

% (as at 30th June)	2016-17	2017-18	2018-19	2019-20	2020-21	Morningstar Fund Rating
UK						
Artemis UK Select	34.0	9.5	-6.8	-7.6	48.7	★★★★
Fidelity Special Situations	30.6	8.2	-2.9	-19.6	36.0	★★★
Fidelity UK Select	20.6	7.7	4.4	-12.1	25.3	★★★★
Franklin UK Equity Income	17.8	6.6	2.8	-11.5	19.1	★★★★★
Jupiter UK Special Situations	27.1	6.9	-5.2	-14.4	30.4	★★★★
Lazard UK Omega	20.7	10.1	-4.7	-14.8	28.7	★★★
Liontrust UK Growth	20.1	11.4	3.0	-10.2	18.0	★★★★
Majedie UK Equity	23.4	7.5	-6.7	-11.4	24.9	★★★★
Threadneedle UK Mid 250	7.3	9.2	-3.8	-18.1	53.3	★★★
ALTERNATIVES						
Aviva Investors Multi-Strategy Target Return	1.8	-1.5	0.0	1.3	6.0	★★★
Foresight UK Infrastructure Income	-	-	19.0	2.5	5.7	★★★★
Invesco Global Targeted Returns	5.4	-1.8	-1.5	0.1	-1.5	★★
iShares Global Property Securities Equity Index	5.3	4.3	11.4	-13.2	19.7	★★★
Ninety One Global Gold	-17.4	1.8	21.9	50.8	-19.3	★★★★

Before you invest, please ensure you have read Doing Business with Fidelity and the Key Investor Information Document (KIID) or Fund Specific Information Document (FSI), relevant to your chosen fund(s). These documents give you all the information you need to know about Fidelity, including details of the objective, investment policy, risks, charges and past performance associated with the fund(s). Instructions on how to access these documents can be found at fidelity.co.uk/importantinformation. If you do not have a computer or access to the internet please call Fidelity on **0800 41 41 61** to request a printed copy of the documents. The Full Prospectus is also available on request from Fidelity.

Source: Morningstar as from 30.6.16 to 30.6.21. 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

	Price-earnings ratio 2021E	Dividend yield 2021E
Shares		%
S&P 500	21.2	1.5
MSCI Europe	16.5	3.0
FTSE 100	13.3	3.8
Japan TOPIX	15.6	2.1
MSCI Asia Pacific	15.7	2.4
MSCI Emerging Markets	13.9	2.6
China CSI 300	18.1	1.9

	Redemption Yield
Bonds	%
ML Global High Yield	4.5
German 10-Year Bunds	-0.2
ML Global Corporates	1.6
UK 10-Year Gilts	1.1
US 10-Year Treasuries	1.4

INVESTMENT PERFORMANCE AT A GLANCE

% (as at 30th June)	3 m	2016-17	2017-18	2018-19	2019-20	2020-21
Shares						
S&P 500	8.5	17.2	14.0	9.5	-7.0	56.4
FTSE All Share	5.6	22.0	1.2	6.4	-18.5	26.7
FTSE 100	5.7	23.3	0.2	7.7	-18.4	21.9
FTSE 250	4.7	15.3	5.3	1.0	-18.6	45.1
Euro STOXX	5.2	21.4	-0.9	3.5	-13.9	44.4
MSCI Europe	7.7	21.8	5.9	2.6	-6.3	35.8
Shanghai SE	4.3	7.4	-1.7	-2.5	-11.0	25.2
Shenzhen	5.4	-0.5	1.4	-10.3	-21.6	39.4
MSCI Emerging Markets	5.1	17.7	25.4	-7.1	-17.4	58.9
Nikkei 225	-1.2	15.0	15.7	0.9	-8.8	56.7
TOPIX	-0.5	12.3	13.5	-7.3	-11.8	39.3
MSCI World	7.9	15.4	14.2	4.6	-9.9	54.8
China Securities 300	5.9	2.8	26.2	-5.5	-7.9	50.9
India Nifty 500	9.8	10.0	-2.3	19.3	55.0	109.2
Bitcoin	-41.3	329.5	127.3	96.6	-25.1	278.2
World Renewable Energy	-1.7	10.0	-2.3	19.3	55.0	109.2
Bonds						
US 10-Year Treasuries	3.8	-3.0	-1.1	5.5	21.5	-8.1
UK 10-Year Gilts	1.4	5.7	-0.3	5.9	7.7	-4.4
German 10-Year Bunds	-0.4	-0.4	0.0	7.1	4.1	-1.3
JPM Emerging Markets Bond Index	3.9	8.8	3.3	3.5	-5.3	14.3
ML Global High Yield	2.6	13.8	6.7	3.2	-8.3	25.7
ML Global Corporates	2.7	1.3	6.6	1.3	1.1	11.8
Commodities						
CRB Commodities Index	15.4	9.4	6.4	-3.9	-32.5	52.0
Crude Oil (Brent)	21.1	33.8	32.6	-1.6	-78.1	327.7
Gold Spot	3.7	1.3	6.1	-2.5	21.6	8.7
Copper	6.4	19.2	14.8	-2.9	-23.9	77.9
Silver	6.5	16.0	-12.0	-7.9	-7.6	67.6

Source: Refinitiv, 30.6.21. in local currency terms. Valuations and Bond Yields: Source Refinitiv, as at 5.7.21

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- Detailed investment approach including direct company interviews

Source: Fidelity as at 31.3.21

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