INVESTMENT OUTLOOK

Fidelity Personal Investing's market and investment view

October 2021

In this issue:

- The end of cheap money
- China: stick or twist?
- Are bonds worth it?
- Focus on the FTSE 250

"As inflation rises and growth moderates a more defensive stance is warranted."

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	Neutral	Downgrade	The list of things to worry about is getting longer. Shares remain the preferred asset class, but the next phase will be harder work.
Bonds	Negative	Unchanged	In a more inflationary environment of rising interest rates and still tight spreads, the risk/reward ratio in bonds is unattractive.
Property	Neutral	Unchanged	The wall of money is still boosting prices and depressing yields. This is likely to continue but investing with a good manager is key.
Commodities	Neutral	Downgrade	It's hard to generalise about the asset class as rising energy prices threaten the growth on which the price of industrial metals depends.
Cash	Positive	Unchanged	Many investors we speak to are turning more cautious. It's always good to have cash to hand to take advantage of any correction.
Regions	**Current View**	**3 Month Change**	
US	Neutral	Downgrade	The list of concerns is long, offsetting the positives in the world's biggest equity market. The US is expensive, but all portfolios need an exposure.
UK	Neutral	Downgrade	The FTSE 100 is cheap but unexciting. The Mid-caps are pricier but deservedly so and still attractive on a global comparison.
Europe	Neutral	Downgrade	Europe is now a stock-picker's market with quality and cyclicals trading at expensive multiples. The economic and earnings outlook is good though.
Asia Pacific ex-Japan	Neutral	Unchanged	Reading Beijing's intentions is a challenge for overseas investors. India looks expensive. Asean is an opportunity in search of a catalyst.
Japan	Positive	Unchanged	Japan is pulling out of a difficult summer. A new leader, better Covid outlook and cheap valuations make a good case for investing.

Current View: ☑ Positive ⊟ Neutral ☒ Negative

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

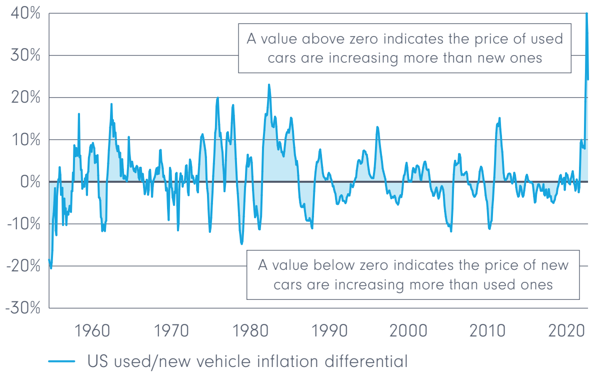
For more market data including full 5 year performance figures see page 15 ▶

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.

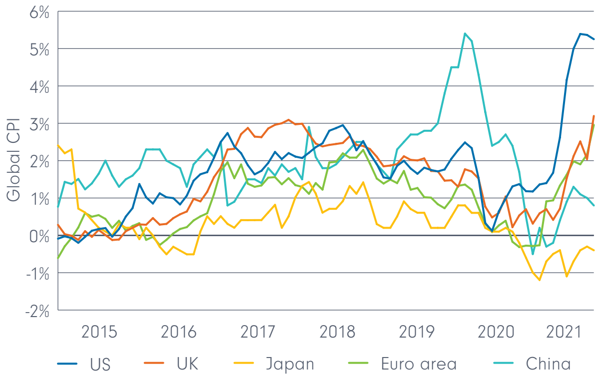
Three charts: the summer-time blues

Don't know what you've lost 'til it's gone

Oh, the things we used to take for granted. Full supermarket shelves, a tank of petrol when we needed it, cheap and willing workers to pick us year-round fruit and veg. The pre-pandemic, pre-Brexit world seems an increasingly dim and distant memory as we head into what looks like being a discontented winter. For those of us old enough to remember, there's more than a touch of the 1970s about the headlines. The chart here is another interesting example of what happens when the assumptions of globalisation are questioned. The shortage of semi-conductors – part supply problem, part logistics, part rising demand – is showing up in a widening differential between new and used car prices. The latter is rising faster than the former as frustrated buyers learn to live with what they can get hold of.



Source: Refinitiv, 2.8.21



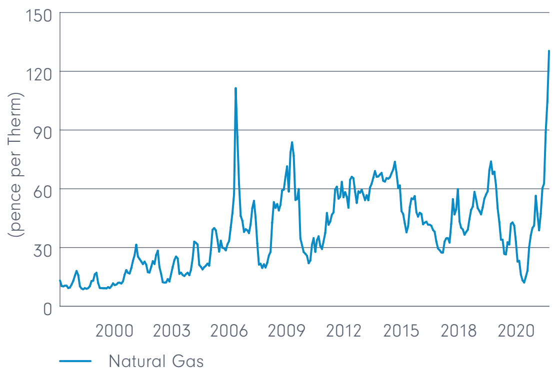
Source: Refinitiv, 27.9.21

Inflation – back to the future

Queues at the forecourts are not the only reminder of the 1970s. Inflation is back in the headlines, although 50 years ago we would certainly have settled for today's still relatively modest price rises. As the chart shows, the problem is not yet global. The hike in the consumer prices index is most obvious in the US, but there is some early evidence that the Federal Reserve may have been right to call inflation 'transitory'. Here in Britain, the added problem of labour shortages means we are unlikely to have reached peak inflation just yet. But in Asia and the rest of Europe persistent price rises don't yet seem to be an issue. In Japan, getting prices to rise at all looks like the bigger challenge. As investors we are right to worry about inflation. It is a tax and the enemy of investment returns. But we're not Back to the Future quite yet.

Energy prices – it's a gas

Supply chain disruptions, inflation and the fragility of the global economy have all coalesced in one number that every householder in the country can readily understand – their gas bill. It's been a perfect storm. Last year's long, cold winter; idled production in the face of a pandemic price slump; Hurricane Ida; high demand for liquid gas in Asia; low Russian supplies; even a lack of wind in the North Sea. Put it all together and the result has been the sharpest price spike in the cost of gas in recent memory. The knock-on impacts have been dramatic. Gas suppliers have been caught between variable wholesale prices and a regulatory cap on retail prices. Not to mention what we've learned about CO2 in recent weeks. A by-product of fertiliser production, which in turn is uneconomic when gas prices are too high, it's used everywhere from food transportation to nuclear power stations to abattoirs. Fragile indeed.



Source: Refinitiv, 30.9.21

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

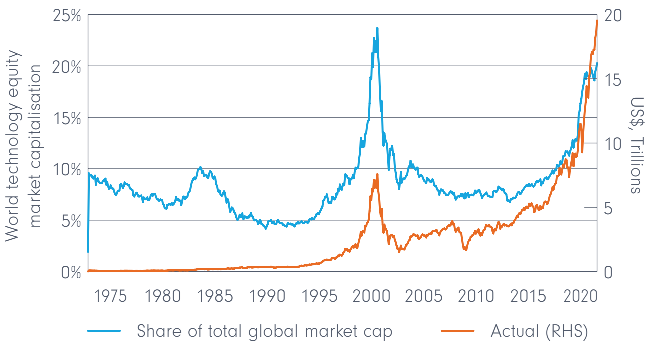
Acknowledgements: The views in this report are derived from a variety of sources within and outside Fidelity International. They are based on the house view of the Fidelity investment team and other sources. However, the report is written for a UK personal investing audience and the ideas are explicitly linked to the Select 50 list of our preferred funds. We consider this to be the best way for our investors to implement the ideas discussed in the Outlook. I would like to thank, in particular: Salman Ahmed, Jeremy Osborne, Gary Monaghan, Leigh Himsworth, Ayesha Akbar, Jeremy Podger, Neil Cable, Andrea Iannelli, Kasia Kiladis and Natalie Briggs.

Navigating the post-pandemic world

The last six months have seen a return to the tech-dominated status quo. The rotation from growth to value that followed the unveiling of successful vaccines last November turned out to be the flash in the pan that cyclical rallies so often are. Far from falling victim to a persistent change in market leadership, the large growth shares that had driven the market higher in the early days of the pandemic came back into favour in the spring. It is the performance of these golden stocks which has largely kept the market rising as the list of concerns has lengthened this summer.

So, this is a timely moment for Goldman Sachs to publish a fascinating analysis of how the current market concentration in just a few dominant companies compares with previous periods in which markets have been similarly focused. They ask: can technology remain the biggest sector and can those dominant companies continue to be good investments?

Technology dominates again



Source: Refinitiv, 1.9.21

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.

These are important questions, given the likelihood that overall investment returns may turn out to be more disappointing in the next few years than they have been in the past decade or so. If picking the winners matters more in future than just riding the wave higher, then the answers to them will be key.

Goldman's conclusions are broadly as follows:

1. Yes, technology can continue to dominate. In fact, compared with earlier periods of market dominance by, first, finance and real estate stocks (early 19th century), then transport (railway boom) and finally energy and materials (post-WW2), the recent leadership by technology and communications shares is far from unusual. The domination by tech of the new issues market should ensure that the sector continues to have a big market weighting for the foreseeable future.
2. History suggests, however, that dominant companies are in due course knocked off their perch by younger, nimbler rivals. The list of formerly dominant businesses that have disappeared from view is extensive: Kodak, Polaroid, Xerox, Nokia, Dell to name a few. But there is evidence that the current crop of leaders has learned from their predecessors and is taking steps to ensure that history does not repeat itself. Amazon spent $42bn on R&D last year and Apple nearly $20bn. As a consequence, their sales are growing three times as fast as the market and their margins are twice as high.
3. Delivering strong investment returns from today's high valuations will not be easy, though. True, today's tech giants are not as highly valued as were, for example, the market leaders during the tech bubble or the Nifty 50 stocks in the early 1970s. But history again shows that the returns from these types of market leader do fade over time. Importantly, their relative returns fall away as other, faster-growing companies come along to outperform them.

China – stick or twist?

Should we stay or should we go go? That is the question many investors are grappling with today with regard to China. Everyone knows that the world's most populous nation is a huge investment opportunity. What some prominent investors are now asking is whether the risks are too great.

At the heart of the question is President Xi Jinping's drive for 'common prosperity' and the wide-ranging regulatory crackdown in a range of sectors that has accompanied his bid to build a fairer and more productive economy. This has seen government interventions in high profile IPOs and clampdowns on sectors and companies that have been popular with foreign investors. Evergrande has made investors more fretful still. Investing in China has started to look very unpredictable.

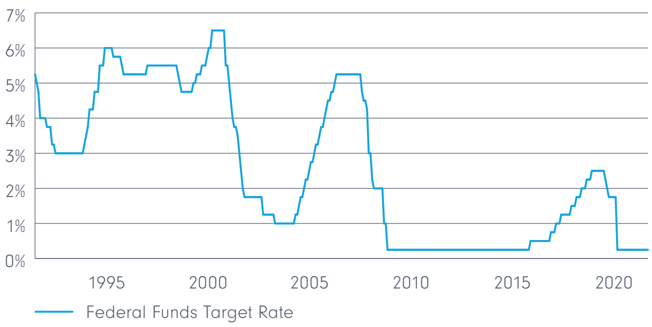
But China bulls are unfazed. The country's 'best decades are ahead' says Howard Marks at Oaktree Capital Management. 'This is not a return to Maoism' says hedge fund king Ray Dalio. Government intervention is nothing new in China, they add. And the recent moves do not derail long-term structural trends like the emergence of China's middle class.

What's clear, however, is that understanding Beijing's motivation and agenda is key. Being on the right side of government policy and seeing which way the regulatory wind is blowing are essential. Investing through experienced China hands, with a big analyst presence in-country, is a good starting point.

The end of cheap money

Only a few months ago, the central banks in Europe, the US and Japan were as one – the threats to the global economy remained significant and they were determined to provide monetary stimulus for the foreseeable future. As we head into autumn, the mood music has changed. The concern has shifted from growth and recovery to inflation in a way that was hard to imagine in the spring.

Interest rates: ready for take-off



Source: Refinitiv, 30.9.21

Past performance is not a reliable indicator of future returns.

At the Federal Reserve's most recent meeting, Jay Powell, the Fed's chairman, made it clear that he is ready to call time on the US's $120bn a month asset purchase programme. The official announcement of this 'taper' will almost certainly come in November and the stimulus will be wound down by the middle of next year. Then all eyes will turn to when interest rates start to rise.

The Fed, which was adamant that inflation was 'transitory', has changed its tune. The central bank now recognises that price rises are more persistent than it thought they would be, and it's prepared to act a bit sooner than expected to ensure that inflation expectations don't usher in a wage-price spiral.

Over here, the Bank of England is, if anything, even more determined. Although inflation is still much lower than it is in America, the Bank expects it to rise to over 4% this year and to stay there for much of next. The inflationary drivers in Britain are different from those in the US, with Brexit a unique additional problem, as we have all witnessed recently in the queues outside petrol stations. The latest minutes from the Bank of England point to a first rise in interest rates as soon as February.

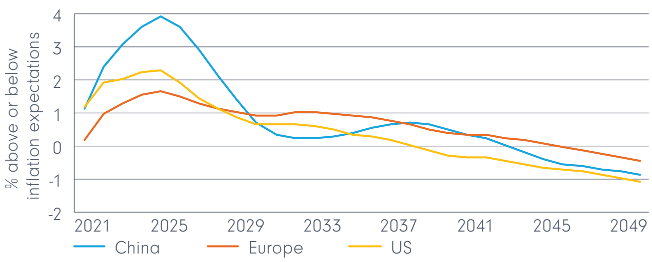
In some emerging markets, the tide has already turned. Interest rates are already on the up in countries like Brazil and Hungary, with the OECD also warning about the outlook in Argentina, Russia and Turkey too. Energy and food costs are more problematic in these countries than in the developed world and both have seen sharp rises recently.

What impact will this have on financial markets? It is hard to tell. No-one can pretend they have not been warned but stock markets never respond well to monetary tightening, even when it has been well flagged.

The spectre of 'greenflation'

When we look at environmental, social and governance (ESG) focused investing, it is often through an ethical lens – how to make money while doing the right thing. However, as we run up to the COP26 climate summit in Glasgow in November, it is becoming clear that global warming and the steps we take to counter it in the years to come will also have a big impact on how we allocate our investment assets and the returns we should expect from them too.

Fighting climate change could stoke inflation



Source: Fidelity International, October 2021

Investors already try to factor in so-called macro themes and risks into their models about which investment strategies will be most profitable. Until now, however, these frameworks have not really considered climate as a major consideration on a par with geopolitics, monetary policy and structural shifts in the balance of economic power, for example from developed markets to China. That's now changing.

Our colleagues in Fidelity's investment team have been crunching the numbers on climate change on the basis of assumptions about two different sets of risks – physical ones (such as extreme weather events, business disruption, asset destruction and migration) as well as so-called transition risks which relate to the measures taken to solve the climate crisis such as regulatory policy, carbon pricing and new technologies.

Their conclusions are sobering. They suggest that investors are underestimating the likely impact of climate change on both growth and inflation, downplaying its likely magnitude and its geographical reach. There are risks and costs to both acting now and to delaying. In the long run, not acting now looks the more expensive option, with a big hit to global GDP in the decades ahead. But hitting 'net zero' targets by 2050 is not costless either. The so-called 'greenflation' that we have started to see in the price of natural gas, as dirtier fuels are phased out, could add to other inflationary forces in the next few years.

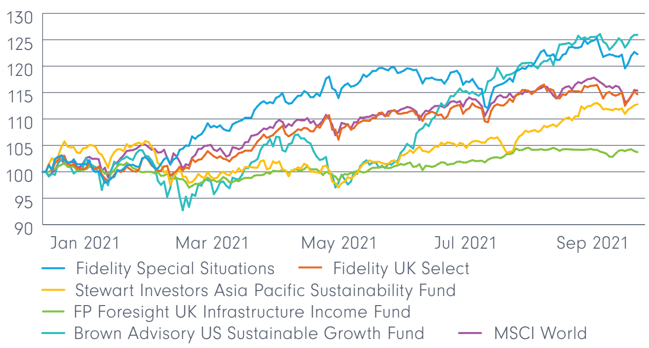
Fund picks – how did they do?

We'll have a fresh stab in a few weeks' time at what we think will be the picks of the Select 50 for 2022. In the meantime, let's look back at this year's selection of funds after nine months. It's been an acceptable year to date. The chart below shows the five picks alongside the MSCI World index. It's not the best comparison for all of the funds, but it provides a broad guide to how the picks have done.

Two have done better than the global benchmark, two are roughly in line. The worst performer, the ***Foresight UK Infrastructure Income Fund***, was selected for its income, which it has delivered, so I'm less fussed about the relative price performance. ***Fidelity UK Select*** and ***Stewart Investors Asia Pacific Leaders Sustainability*** have kept pace with rising global markets.

The decision to include a mixture of growth and value styles paid off. The shift back to a more defensive approach is particularly clear from the performance of the ***Brown Advisory US Sustainable Growth Fund*** which moved from the back of the pack to the front in four months. But it's level pegging with ***Fidelity Special Situations***, a value-focused fund. Balance and diversification have been helpful – as ever.

A solid first nine months



Source: Morningstar, 30.9.21 bid to bid with income reinvested in GBP terms. Excludes initial charge. Figures rebased to 100 on the chart as at 1.1.21

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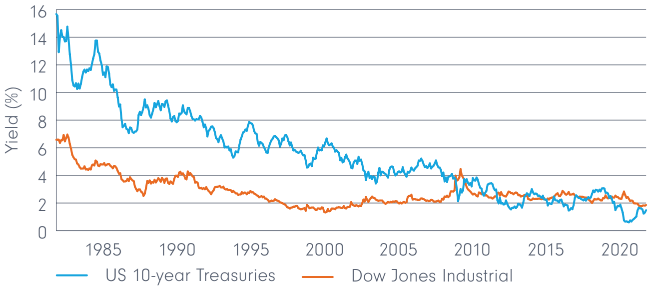
Asset classes

SHARES

Shares now yield more than bonds



Source: Refinitiv, as at 30.9.21

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. 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.

The shape, extent and duration of bull markets are clear in hindsight, less obvious in real time. Since the Second World War there have been two big completed bulls, the first running all the way up to about 1968 and the second from 1982 to 2000. We are now in the third, which began in the aftermath of the financial crisis. What we don't know is when it will end.

Goldman Sachs recently analysed the post-war period, identifying some shared characteristics of the bullish market phases. Essentially, it said that they grew out of periods of low profitability and pessimistic valuations. They were fuelled by low or falling interest rates and underpinned by economic growth, technological change, regulatory reforms or a combination of some or all of these. Spotting the triggers for the bulls to end is harder but the reverse of the above features is not a bad starting point.

So how does the current market situation stack up on those measures? After 12 years of rising markets (if you discount the quickly reversed pandemic plunge last year), shares are no longer obviously cheap. Indeed, on most measures they are towards the top end of the historic range. Profitability is also no longer low – margins have trebled over the past 30 years. Interest rates are no longer falling and, almost certainly, they will be rising again in key markets within the next year. Regulation is tightening in some markets and sectors.

So, there are plenty of reasons to worry that we are closer to the end of the current bull market than the beginning. Goldman's view is that today's fundamentals point to a period of lower absolute returns in future but not necessarily to anything more worrying. The likely direction of markets is what it calls 'fat and flat', that is to say a lower trajectory with more subdued but positive returns, punctuated by big cyclical swings.

That sounds plausible. Shares are relatively expensive in absolute terms but less so when looked at relative to the principal alternative, bonds. At the last valuation peak in 2000, investors were happy to accept a 1% yield on the most popular shares at a time when risk-free bonds were offering an income of 6.5%. Today the two asset classes are yielding roughly the same and, if you factor in buybacks, shares have a clear yield advantage.

What seems likely is that shares will not provide the easy ride they have since the financial crisis nor during the two previous long bull markets. Investing will be less like an upwards escalator ride than a walk on one of those horizontal airport travelators. At times, it might even feel like slogging up the stairs. It's going to be harder work.

Stock picking is going to be more important than ever. Picking the winners will be required if the market isn't giving us a free ride. Investing in good, actively managed equity funds is the soundest approach in these market conditions. A global approach makes sense if, as we expect, the fully valued US market is no longer the obvious winner.

Select 50 fund picks: *our select list has a strong range of global funds. We particularly like the* ***Rathbone Global Opportunities Fund*** *and the* ***Fidelity Global Special Situations Fund****. Before you invest in a fund, please ensure you have read Doing Business with Fidelity and the Key Information Document (KID).*

PROPERTY

About two thirds of the total return from real estate is accounted for by the income it delivers to investors. That means that assessing the quality of a property's tenant is just as important as how good a building is or where it is located. In a world that's changing as fast as ours, with widespread disruption of business models, it's arguably more important.

This is where your choice of fund manager comes in. A boutique property investor may have a good understanding of where rental yields are heading and where investment fund flows are coming from. But they may be behind the curve when it comes to the trends that will affect the durability of a tenant in a particular sector – whether they will continue to pay their rent, or indeed survive for the duration of a lease. This is why a cross-functional approach to property is so important. Property expertise needs to be balanced by a fixed income-like approach to due diligence and an equity analyst's eye for changing themes.

Property has a place in a portfolio, especially in a more inflationary world where rising rents can help real estate investors keep up with rising prices. But as a wall of money continues to drive yields to historically unprecedented levels, knowing your tenant has never been so 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.

BONDS

There are a few good reasons to hold bonds in a portfolio. They can provide a steady and reliable income. They can offset the inherent volatility of the stock market, rising when shares fall and vice versa. Depending on who has issued the bonds, they can provide capital security – the US or British governments, for example, are unlikely to default. If interest rates fall, simple arithmetic means they will deliver a capital gain because their fixed income stream becomes more valuable to an investor.

All of these are true but, with the exception of the dependability of the governments on either side of the Atlantic, none of them is particularly relevant today. While it's true that the income from bonds can be reliable, it is also pitifully low if you are not prepared to take the credit risk of a company failing. If you are, then you are better off receiving a possibly higher, and probably growing, dividend income from the same company's shares.

While it is also true that in the past bonds have offset the ups and downs of shares, this is less likely with interest rates and yields at today's low levels. The thinking behind the traditional 60/40 fund, with a mixture of bonds and shares, remains hard-wired, but the reality is that the best days for these balanced portfolios is now in the past. Were inflation to kick off, it is probable that both bonds and shares would fall at the same time.

The third advantage, the capital gain achieved as interest rates fall, also seems purely theoretical in today's environment. The recent meetings of both the Federal Reserve and the Bank of England made it clear that the next move in interest rates will be up, and probably within the year on both sides of the Atlantic. So, the arithmetically automatic gain is more likely to be an automatic loss in the months and years ahead.

The situation for corporate bonds is, if anything, worse than for government debt. That's because the search for yield by income-starved investors has seen the gap between government bond yields and those on corporates narrow to historically low levels. The spreads, as they are called, have never been tighter. That means that if bond yields rise, fixed income investors could be hit by a double whammy – a rising risk-free rate and a wider spread at the same time. The combination of the two would deliver a sharp fall in bond prices.

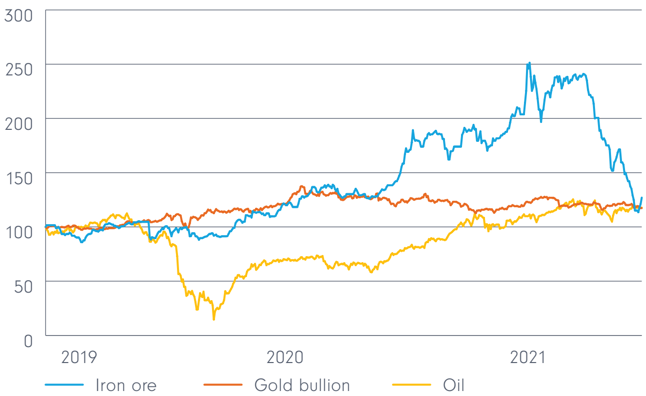
Bond investors are pinning their hopes on at least one of three things coming to pass. They need a combination of pension fund regulation and the desire for income to keep money flowing into bonds. They hope that government bond issuance will fall back as quickly as central bank bond purchases to keep the arithmetic of supply and demand intact. And they believe that inflation will prove as transitory as central banks seemed to think until very recently.

All of these are possible, but the risk/reward balance still leans much more to shares than to bonds.

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.

COMMODITIES

The reward for taking risk is smaller than ever



Source: Refinitiv, 30.9.21, rebased to 100 as at 30.9.19, in USD

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

Here's a trick question. If you had invested in iron ore, gold and oil two years ago, which of the three would have delivered the best return? The answer is clear from the chart above, but you would otherwise probably not have guessed it: none of the above. That's because the three commodities have all taken very different routes to arriving at pretty much the same place.

If you had read the recent headlines you might have plumped for oil. The price of Brent crude has certainly risen strongly recently to above $80 a barrel for the first time in three years. But that has merely unwound the dramatic collapse in the oil price at the start of the pandemic in early 2020. And oil is still considerably cheaper than it was six or seven years ago.

Iron ore has taken a different sort of round trip, more than doubling since last autumn on hopes for a global economic rebound but then halving again as China's clampdown on property speculation and the woes of Evergrande raised questions about demand for steel, for which iron ore is the key ingredient.

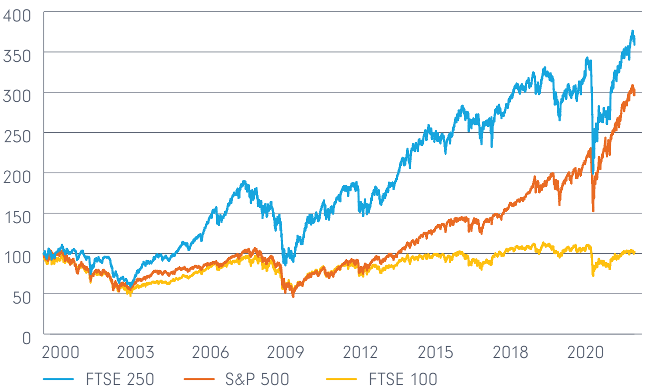
And what about gold? Well, it has bounced around for a year or so between $1,700 and $2,000 an ounce, seemingly unsure whether resurgent inflation would increase demand for the precious metal as it has in the past or leave it playing second fiddle to the new kid on the block, bitcoin.

Watching commodities this year has been exhausting and for most investors it's all been a bit too volatile to make sense as an investment class other than via a broad-based basket of resources that evens out the differences. The bigger concern for investors is what impact rising prices will have on corporate earnings. A surge in energy prices is top of the list of worries.

Stock markets around the world

UK

Investing in the UK has not been so bad after all



Source: Refinitiv, 30.9.21, rebased to 100 as at 3.1.00 (peak of dotcom bubble), total returns in local currency

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It's very important as investors to understand what we are looking at. If we are not careful, we can pick up entirely the wrong message. The performance of the UK stock market over the past 20 years is an excellent example of this danger.

The conventional wisdom says that investing in the UK has been a bit of a disaster in recent years and if you look at the divergence between the FTSE 100 and the S&P 500 in the chart above you can see why people might have come to that conclusion.

Although UK and US shares tracked each other closely in the first dozen years after the peak of the dot.com bubble in 2000, they have parted company in the 10 years since the financial crisis. The divide has widened further in the recovery from the pandemic lows last year.

But when you add in a third line, representing the performance of the FTSE 250 mid-cap index, a rather different picture emerges. Yes, investing in the UK's biggest companies has been hugely disappointing but it only tells part of the story. Smaller, more domestically focused, companies have matched the US market and then some.

The FTSE 100 is the UK stock market benchmark we all watch but arguably it should be put out to grass. It shows the performance of the biggest companies, but these are concentrated in a handful of sectors and they earn most of their profits in the rest of the world, not here in the UK. Just 24% of the FTSE 100's sales are domestic, compared with 51% of the FTSE 250's.

More than half of the value of the FTSE 100 is represented by commodities, financials and consumer staples. This was true in 2000 too, when an additional 30% of the index was in technology, media and telecom (TMT) stocks. The weighting of TMT has dwindled to next to nothing as companies have been taken over or gone out of business while the other stodgy sectors have grown more important. No wonder the FTSE 100 has gone nowhere in two decades.

The FTSE 250, on the other hand, has risen more than 3.5-fold over the same period, outpacing the trebling in value of the S&P 500. You could have made good money investing in our home market but only if you ignored those big, boring businesses in the FTSE 100.

So, what should we take from this looking forward? To draw sensible conclusions, we need to look through the windscreen not in the rear-view mirror. In terms of valuations, the FTSE 250 looks more expensive than the FTSE 100 with a price that's 17.7 times expected earnings versus 12.4 for the blue-chip index. But look at the forecast earnings growth and that looks more than justified – Goldman Sachs estimates that FTSE 250 earnings will grow five times faster than those in the FTSE 100 (53% vs 9%). And it's worth pointing out that the FTSE 250 index's valuation multiple is much lower than the 21.6 for the S&P 500.

Select 50 fund pick: *there are nine UK funds on the Select 50 representing a wide spread of investment styles. The fund that is most obviously focused on the FTSE 250 index is the* ***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

When is it right to start worrying?

Source: Refinitiv, 30.9.21

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.

If you are of even a slightly nervous disposition, the chart here will give you pause for thought. The performance of the S&P500 over the past dozen years has been remarkable. The index has risen 4.5 times in 12 years. From the wreckage of the financial crisis, who would have imagined that?

If you look at the history of bull markets, the shape of this chart will also look familiar. Stock markets climb a wall of worry, grinding higher as investors slowly put their fears to one side. Then at some point in the process, they throw caution to the wind, the glass becomes half full and the trajectory of the chart moves closer to the vertical. Exactly the same thing happened towards the end of the 1982-2000 bull. The left turn happened in 1995 and the steeper line persisted for another four years.

On that basis, the good times might continue for a while yet and you can make a good argument that valuations are not yet at the eye-watering levels of 2000, especially when measured against the much more expensive bond market today. If so, then the very poor performance of the US market in September should be seen as just another pause that refreshes.

However, things do feel a bit different now. The list of things to worry about is lengthening. Top of that list is inflation.

The Federal Reserve held its line that price rises were temporary for as long as it could but even the US central bank now seems to accept that there are elements of the inflation calculation that are more persistent than they would like. The move towards a $15 minimum wage signals longer-term wage growth. There are persistent upward pressures on US house prices as millennials look to buy. The green revolution is clearly inflationary.

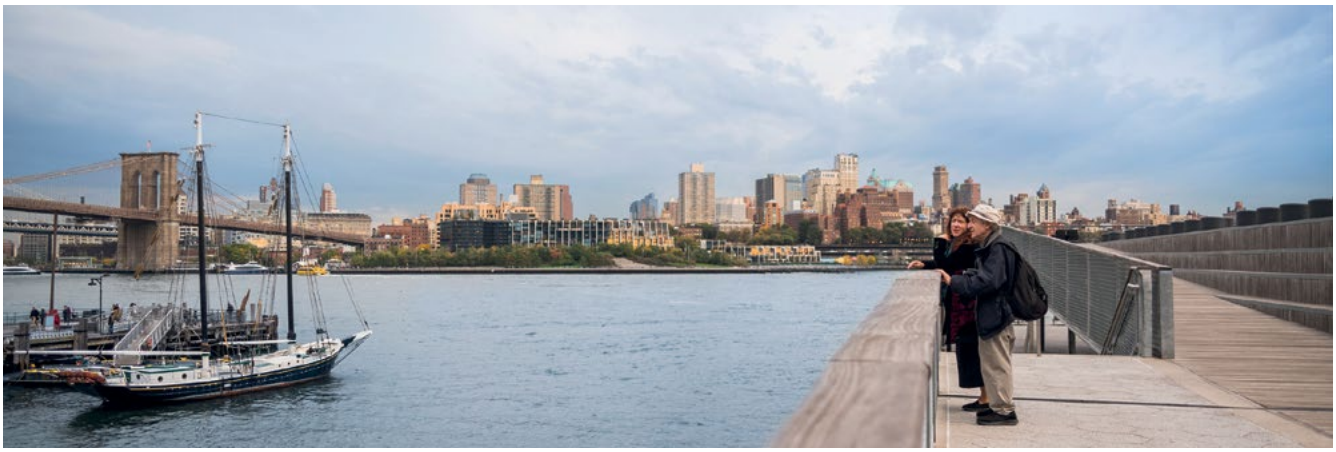
Having accepted it underestimated inflation, the Fed has now come clean on its tightening programme. Almost certainly, asset purchases will be tapered in double quick fashion by the middle of next year and then the interest rate hikes will begin. These will probably continue through both 2023 and 2024. It remains to be seen how the market will respond.

At the same time, we have seen the peak in both economic and earnings growth. It is still positive on both fronts, but markets reflect changes in expectations rather than the absolute level of any measure. Earnings exceeded forecasts usefully in both the first and second quarters this year. They will struggle to keep repeating that trick.

There are positives too. The government is determined to press ahead with a hugely ambitious infrastructure spending programme. Household incomes have benefited from a generous Child Care Tax Credit package. Whether these can offset the drag of higher rates in an increasingly stagflationary environment is a moot point.

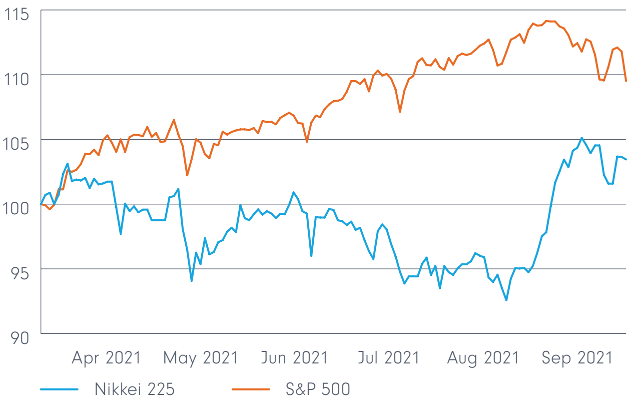
Finally, it is unclear that this changed balance of positives and negatives is adequately reflected in a stock market that has defied all expectations and now stands on a forward price to earnings ratio of nearly 22. That leaves little room for disappointment.

Select 50 fund picks: *Even if the US looks expensive, a balanced portfolio will always have an exposure to the world's biggest market. Our favoured funds remain the **Rathbone Global Opportunities Fund**, with its high US weighting, and the **Brown Advisory US Sustainable Growth Fund**. Before you invest in a fund, please ensure you have read Doing Business with Fidelity and the Key Information Document (KID).*



JAPAN

Japan bounces back after a difficult summer



Source: Refinitiv, 30.9.21, rebased to 100 as at 30.3.21 total returns in local currency

It's been a testing summer in Japan, as the chart above suggests. Between April and August, the Nikkei 225 significantly underperformed other developed markets like the US, shown here. The principal reason was the country's clumsy handling of the Covid pandemic, with vaccinations falling well behind comparable countries in the West. An unpopular Olympics and an even more unpopular prime minister completed the gloomy picture.

The recovery in the Japanese market in September reflected a belated improvement in the Covid situation and, in particular, the decision by Prime Minister Suga not to contest the recent contest for leadership of the LDP, effectively a resignation. His replacement Fumio Kishida is very much the continuity candidate, not the most popular outcome with younger, more progressive voters, but one that ensures more of the same in terms of policy.

On the economic front, things are looking up in Japan. Growth in the second quarter reversed the decline in the first and the rolling over of the fifth wave of the virus paves the way for a re-opening of the economy in the final quarter of the year. Vaccinations are now approaching US and UK levels after a hesitant start, so it is likely that we have seen the end of Japan's states of emergency.

This should mean that Japan can once again start to benefit from its traditional cyclicality, doing well when activity picks up around the world. This is shown most clearly by the strong correlation between the Japanese stock market and US bond yields. Rising yields, reflecting improving economic activity, are good for the Nikkei so the recent uptick in the yield on the 10-year Treasury augurs well, as does the fall in the value of the yen versus the dollar.

Within the Japanese market there are plenty of interesting opportunities, particularly in the so-called re-opening plays. Most obvious of these are Japan's railway companies, still 40% below their pre-pandemic levels and a clear beneficiary of people getting back to work.

The improving economic and political situation is being reflected in earnings forecasts, which point to a strong rise in corporate profits in the year to next March (up 37% according to Goldman Sachs). We should see some evidence of this in the October/November half year results season when Japan's famously cautious companies will give some guidance as to the rest of the year.

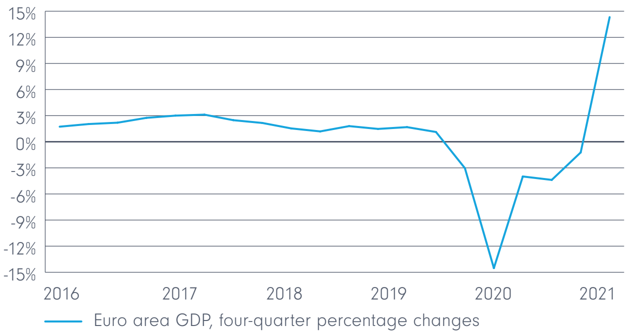
Other reasons to be positive on Japanese shares include a clear valuation advantage. The slide since the spring has left Japanese stocks much cheaper than their US counterparts, and cheaper also than shares in Europe. The average price to earnings multiple fell by around 20% over the summer, a significant correction. Cautious overseas investors should start to take note.

All eyes now are on the general election later in the year. History shows that an outright majority by the winning party leads to outperformance in subsequent months. So, investors will be hoping for a clear result.

Select 50 fund pick: *The three Japanese funds on the Select 50 all perform very differently as they adopt different styles. For investors looking for only one fund, we like the solid long-term performance of the* ***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

Europe is bouncing back



Source: Refinitiv, 30.9.21

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

The outlook for Europe is good. The region is well placed to benefit from a pick-up in global economic activity due to its strong export sectors. Re-opening of economies as Covid is overcome will provide a domestic tailwind. The ECB is resolutely accommodative, insisting that the recent upturn in inflation is transitory.

Business was strong over the summer with services outperforming manufacturing for the first time since the start of the pandemic. Activity in August grew at one of the fastest rates in 20 years. The only problem for investors in the region is that the expectation of strong recovery has been baked into markets for many months now. The MSCI Europe index has been neck and neck with the US over the past year.

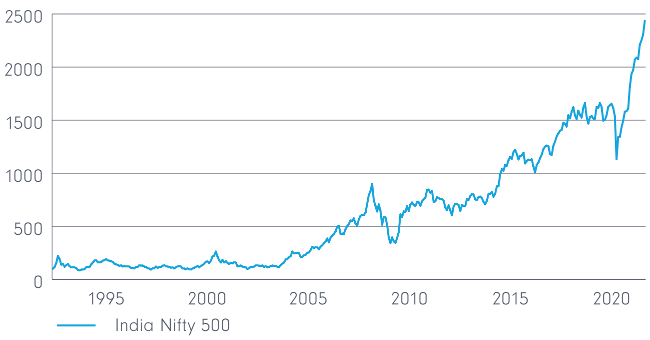
The performance has not been across the board, however, which provides opportunities for stock pickers. The gap between the winners and losers within sectors has never been wider. In the consumer sector, for example, L'Oreal trades on around 45 times earnings while Unilever is on just 18. If there is any kind of pull-back from the strong performance this year, some of the more expensive quality and cyclical stocks may look vulnerable.

This is an unusual market dynamic. These kinds of disparities have not been seen since the strange markets of 1999/2000. They make investing in Europe particularly risky today.

Select 50 fund pick: *The* ***Fidelity European Growth Fund*** *has not performed particularly well this year as its 'growth at an attractive price' strategy has been out of favour. Any doubts about high valuations could see it perform relative well from here. 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 – the jewel in Asia's crown



Source: Refinitiv, 30.9.21, price index, rebased to 100 as at 1.1.92

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.

Chinese capitalism has always been different. The mistake Westerners may have made is to think that China would follow our model. And investors have always been well advised to treat the world as it is not as they would wish it to be.

Each regulatory squeeze in China is in isolation not so dramatic. The focus on e-commerce and internet companies is in many ways just playing catch up with privacy and data norms in the rest of the world. Likewise, the focus on education, property and healthcare – the so-called three mountains – should not be a surprise in a state that's rediscovering its egalitarian roots.

What is hard for foreign investors is the pace of change, the broad front on which measures are being enacted and the difficulty in predicting where the axe will fall next. But that is how it is investing in China. Perhaps it is not the open goal it seemed in the past. You have to understand the messages coming out of Beijing and learn how to play the game. It's a good argument for strong on the ground analysis and stock picking.

The rest of the region is a different matter. The Indian stock market seems to have shaken off Covid altogether. It has always been an expensive market and it is more so now. As an overseas investor the temptation is to go for quality. But the price tag for that is high.

ASEAN has so much potential, great demographics and loads of catch up potential. But the region is in the doldrums because of Covid and a slow vaccine roll-out. Valuations are cheap but a catalyst is lacking.

Select 50 fund pick: *We continue to favour a pan-regional approach in this heterogenous part of the world. The* ***Stewart Investors Asia Pacific Leaders Sustainability Fund*** *is a good way into the region for long-term investors. 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 September)	2016-17	2017-18	2018-19	2019-20	2020-21	Morningstar Fund Rating
ASIA AND EMERGING MARKETS						
Fidelity Funds – Asian Smaller Companies	11.1	0.5	5.0	-7.5	32.6	✪✪✪
Fidelity Funds – Asian Special Situations	18.9	4.1	6.9	7.7	10.3	✪✪✪
Jupiter Merian Asia Pacific	29.5	2.7	0.4	11.3	17.0	✪✪✪✪
Maple-Brown Abbott Asia Pacific ex Japan	17.4	8.1	-4.0	-13.2	21.1	✪
Stewart Investors Asia Pacific Leaders	4.3	13.8	5.0	8.5	24.5	✪✪✪✪✪
BONDS						
ASI Global Inflation-linked Bond	-3.5	0.0	9.9	4.2	2.6	✪✪✪✪
Colchester Global Bond	-	-	-	2.3	-5.6	-
Fidelity MoneyBuilder Income	-0.6	-0.1	9.4	3.5	1.9	✪✪✪
Fidelity Strategic Bond†	1.4	-1.5	7.8	5.6	3.2	✪✪✪
Invesco High Yield	11.7	1.0	5.6	-2.5	15.8	✪✪✪✪✪
JPM Global High Yield Bond	6.9	2.2	4.5	0.2	12.0	-
M&G Corporate Bond	0.6	0.3	9.8	2.8	1.7	✪✪✪
M&G Optimal Income	7.2	0.2	3.6	0.7	8.5	✪✪✪✪
PIMCO GIS Global Bond Fund	1.3	-0.4	7.0	4.6	0.5	✪✪✪✪✪

† 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

STANDARDISED PERFORMANCE DATA (%) OVER THE PAST FIVE YEARS

% (as at 30th September)	2016-17	2017-18	2018-19	2019-20	2020-21	Morningstar Fund Rating
EUROPE						
Barings Europe Select	22.5	6.2	1.9	6.4	20.3	★★★★
BlackRock Continental European	21.9	7.1	5.9	24.1	31.2	★★★★★
Comgest Growth Europe ex UK	13.5	16.8	5.9	15.0	24.3	★★★★★
Fidelity Funds – European Growth	17.3	7.1	0.5	-7.1	18.3	★★
JOHCM European Select Values	17.3	-0.7	-6.2	-8.0	23.2	★★★
Robeco QI European Conservative Equities	9.6	3.8	7.6	-3.8	12.5	★★★
GLOBAL						
BNY Mellon Long-Term Global Equity	12.5	21.5	10.5	8.1	20.0	★★★★
Fidelity Global Dividend	6.9	8.5	16.6	-0.2	12.4	★★★★
Fidelity Global Special Situations	20.1	14.4	3.8	7.9	24.0	★★★★
Invesco Global Equity Income	19.3	6.2	3.3	-8.9	29.7	★★★
Rathbone Global Opportunities	16.8	24.3	3.6	27.8	19.9	★★★★★
JAPAN						
Baillie Gifford Japanese	19.5	15.8	1.4	7.9	12.4	★★★★
Lindsell Train Japanese Equity	10.5	24.6	-1.9	6.9	-11.4	★★
Man GLG Japan CoreAlpha	18.0	10.9	-5.6	-21.4	37.3	★
NORTH AMERICA						
Brown Advisory US Sustainable Growth	-	-	-	-	28.5	-
JPM US Equity Income	13.6	16.3	13.0	-7.2	27.5	★★★★
JPM US Select	15.3	22.0	6.5	17.2	26.5	★★★★★
Jupiter Merian North American Equity	19.5	19.5	3.2	6.4	28.7	★★★
Schroder US Mid Cap	12.4	12.8	7.8	-8.4	35.5	★★★

STANDARDISED PERFORMANCE DATA (%) OVER THE PAST FIVE YEARS

% (as at 30th September)	2016-17	2017-18	2018-19	2019-20	2020-21	Morningstar Fund Rating
UK						
Artemis UK Select	24.3	3.6	-3.1	-8.8	55.2	★★★★
Fidelity Special Situations	19.1	6.3	-3.1	-22.5	47.0	★★★
Fidelity UK Select	11.7	4.8	6.8	-10.0	25.7	★★★★
Franklin UK Equity Income	10.3	4.1	4.5	-16.2	26.9	★★★★
Jupiter UK Special Situations	14.6	4.7	-0.3	-22.9	39.8	★★★
Lazard UK Omega	13.2	5.3	-3.0	-16.1	32.6	★★★
Liontrust UK Growth	11.5	9.4	3.0	-11.0	26.1	★★★★
Majedie UK Equity	13.5	2.8	-2.9	-13.9	30.0	★★★★
Threadneedle UK Mid 250	19.9	3.6	-4.2	-3.1	35.5	★★★
ALTERNATIVES						
Aviva Investors Multi-Strategy Target Return	1.0	-1.2	2.2	0.1	5.4	★★★
Foresight UK Infrastructure Income	-	-	16.2	-0.3	5.6	★★★★
Invesco Global Targeted Returns	2.2	-1.2	-0.2	-1.9	0.7	★★
iShares Global Property Securities Equity Index	-2.5	6.0	20.9	-21.8	26.0	★★★
Ninety One Global Gold	-16.0	-15.5	59.9	43.0	-30.4	★★★★

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.

Source: Morningstar from 30.9.16 to 30.9.21. 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 %
FTSE 100	12.4	4.1
Euro Stoxx 600	16.0	3.0
S&P 500	21.8	1.4
MSCI Asia Pacific	15.2	2.5
Japan TOPIX	15.9	2.1

Bonds	Redemption Yield %
ML Global High Yield	4.8
German 10-Year Bunds	-0.2
ML Global Corporates	1.7
UK 10-Year Gilts	1.3
US 10-Year Treasuries	1.5

INVESTMENT PERFORMANCE AT A GLANCE

% (as at 30th September)	3 m	2016-17	2017-18	2018-19	2019-20	2020-21
Shares						
S&P 500	0.6	18.6	17.9	4.3	15.2	30.0
Dow Jones	-1.5	25.5	20.8	4.2	5.7	24.2
FTSE All Share	2.2	11.9	5.9	2.7	-16.6	27.9
FTSE 100	2.0	11.2	6.1	3.2	-18.1	25.4
FTSE 250	3.5	14.3	4.9	1.2	-11.3	35.7
Euro STOXX	-0.1	23.9	-2.1	8.9	-8.0	29.8
MSCI Europe	-1.5	23.0	0.4	-0.1	-0.3	28.0
Shanghai SE	-0.7	11.5	-15.7	3.0	10.8	10.9
Shenzhen	0.7	17.9	-19.2	16.4	1.3	15.8
MSCI Emerging Markets	-8.0	22.9	-0.4	-1.6	10.9	18.6
Nikkei 225	3.0	26.0	20.8	-7.8	8.7	29.1
TOPIX	5.3	29.3	10.8	-10.4	4.9	27.5
MSCI World	0.1	18.9	11.8	2.4	11.0	29.4
India Nifty 500	12.1	17.8	7.3	3.7	1.0	62.9
Bonds						
US 10-Year Treasuries	-0.1	-3.8	-4.7	16.8	12.6	-5.1
UK 10-Year Gilts	-2.7	-5.8	1.2	21.7	5.0	-10.6
German 10-Year Bunds	-0.3	-3.9	1.4	11.6	-0.3	-2.7
JPM Emerging Markets Bond Index	-1.1	2.9	-5.0	8.2	4.8	1.2
ML Global High Yield	-0.4	9.8	1.3	5.8	3.9	9.8
ML Global Corporates	-0.8	3.0	-1.3	8.7	7.7	1.6
Commodities						
CRB Commodities Index	7.3	-1.0	8.4	-8.8	-14.0	54.2
Crude Oil (Brent)	4.4	14.1	43.8	-26.5	-32.7	91.7
Gold Spot	-1.0	-3.4	-7.7	22.5	25.4	-8.3
Copper	-4.4	32.7	-2.6	-9.1	17.1	34.1
Silver	-16.0	-14.6	-12.6	14.3	33.8	-7.2
Natural Gas	208.1	37.1	56.0	-54.7	-4.1	432.1
Iron ore	-45.0	9.9	11.9	34.9	28.2	-1.7

Source: Refinitiv, 30.9.21. in local currency terms. Share valuations as at 9.9.21 and bond yields as at 4.10.21