INVESTMENT OUTLOOK

Fidelity Personal Investing's market and investment view

In this issue:

- Living with inflation
- The importance of diversification
- All eyes on the Fed

April 2022

ISAs | Pensions | Funds | Shares | Advice

Fidelity INTERNATIONAL

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Outlook **at a glance**

Current view: ✓ Positive — Neutral ✗ Negative

3 month change (since the previous Investment Outlook): ▲ Upgrade ▶ Unchanged ▼ Downgrade

Asset classes	Current view	3 month change	At a glance
Shares	—	▼	There may be no alternative to shares but rising interest rates, persistent inflation, slowing growth and ongoing Covid concerns are a headwind.
Bonds	—	▲	The conventional wisdom says avoid bonds in inflationary times. But there is a price for everything and yields now better reflect the risks.
Property	—	▶	Much depends on what kind of inflation we end up with. Property can hedge rising prices but stagflation is bad news for real estate.
Commodities	—	▼	Arguments can be made either way for energy prices. Gold continues to look like a port in the storm. Soft commodities are too unpredictable.
Cash	✓	▶	Cash is always useful in volatile markets and the opportunity cost of keeping money on the side-lines will fall as interest rates rise.

Regions	Current view	3 month change	At a glance
US	✓	▲	The US is big and self-sufficient, a safe haven from the challenges elsewhere in the world. That justifies Wall Street's higher valuations.
UK	✓	▶	A rare moment in the sun for the energy and commodity heavy UK market. Valuations and income are added bonuses for our home market.
Europe	—	▼	A good case could be made for Europe before war arrived. For now, the risk of recession and inflation argues for caution.
Asia Pacific ex-Japan	✓	▲	China has faced a cocktail of concerns in the past two years but there are signs that it could be turning the corner. A contrarian call.
Japan	—	▼	Japan was looking good until Covid revisited and war in Ukraine exposed its vulnerability to rising import costs. Cheap but is that enough?

Looking back at the first quarter of 2022

The first three months of 2022 were in some ways what we might have expected at the start of the year. The Federal Reserve's pivot towards monetary tightening had been well flagged. We knew that the best of the post-pandemic market rally lay behind us as recovery shifted towards more sustainable growth.

What has taken us unawares has been the speed with which inflation has come to dominate the investment narrative. Prices are rising at their fastest pace in 40 years and, for younger investors at least, this represents a novel environment. We are having to rethink how we allocate our investment assets in this new landscape.

The return of inflation is in part a consequence of the quarter's biggest shock, war in Europe. The invasion of Ukraine by Russia has changed the geo-political picture, perhaps irreversibly. The revival of a Cold War stand-off between nuclear-armed adversaries, one of which happens to be a key supplier of energy to the other, has uncertain consequences.

While policy and politics have cast a long shadow over the first quarter, so too has the pandemic. Here in the UK, we have learned to live with an endemic virus. Not so in the rest of the world, notably in China where a zero-Covid strategy is being tested by economically damaging lockdowns, including in the country's most important financial and commercial hub, Shanghai.

All three issues are inextricably intertwined. Economic sanctions and creaking supply chains feed through into rising prices, which in turn leads to policy actions that might have seemed implausible only three months ago. Interest rates could rise faster and further than we expected and stay there for longer than we hoped.

All of this has naturally been reflected in the performance of the different asset classes and regional stock markets that we track. As the chart shows, only one asset has really enjoyed a good three months. The oil price has continued to rise, spiking as high as $140 a barrel when it became clear that energy would be weaponised by an unexpectedly united NATO alliance.

Source: Refinitiv, total returns in local currency, 31.3.17 to 31.3.22

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. Investments in emerging markets can be more volatile than other more developed markets. There is a risk that the issuers of bonds may not be able to repay the money they have borrowed or make interest payments.

For full 5 year figures, see overleaf.

The performance of oil flattens the rest of the chart but it is clear that most investments have endured a difficult first quarter.
The ones keeping their heads above water have done so largely because of their exposure to rising energy costs. The UK stock market has outperformed other regional equity markets. It is more exposed than most to oil and gas and other commodities and has a decent weighting towards defensive areas like pharmaceuticals.

Gold has had a decent run, living up to its reputation as a safe haven during times of uncertainty and when inflation is rising. Industrial metals like copper also continue to benefit from a mismatch between strong demand and years of inadequate supply.

One of the most challenging aspects of the past three months has been the increasing correlation between the performance of shares and bonds. For many years, the two have tended to behave differently from each other, offering a smoother ride to investors who wisely balanced their portfolios between them. That's no longer true.

Unfortunately, inflation is bad for both shares and bonds and fixed income investors have suffered their worst month in many years even as shares have fallen. Rising interest rates and high inflation make for a terrible backdrop for bond investors.

The turn in the interest rate cycle has been particularly difficult for the US stock market, dominated as it is by growth shares which thrive on cheap money. Lower valuation multiples have been offset by continuing growth in earnings, but shares have been swimming against the tide.

This has been most obvious in China where an ongoing property crisis, unhelpful regulatory policy in key sectors such as technology, and the unresolved Covid situation have conspired to put the country at the back of the pack once again.

It's been a tough three months for investors, but it is important to put the first quarter in context. The previous seven quarters since the market plunged at the start of the pandemic were more rewarding than any of us would have predicted two years ago. Markets do not move in a straight line and volatility is part of the price we pay for performance.

(as at 31 Mar)	2017-18	2018-19	2019-20	2020-21	2021-22
S&P 500	14.0	9.5	-7.0	56.4	15.7
FTSE 100	0.2	7.7	-18.4	21.9	16.1
MSCI Europe	15.1	-3.1	-15.0	45.7	4.1
Japan Nikkei 225	15.7	0.9	-8.8	56.7	-2.8
MSCI Emerging Markets	25.4	-7.1	-17.4	58.9	-11.1
Gold	5.2	-2.8	22.2	4.4	13.1
US 10yr Treasuries	-1.1	5.5	21.5	-8.1	-2.8
China CSI 300	14.8	1.3	-2.9	39.6	-15.0
Oil	31.0	-2.2	-67.0	181.1	69.2
Copper	14.8	-2.9	-23.9	77.9	18.0
S&P Global Real Estate	-0.3	13.9	-23.4	36.1	19.0

Source: Refinitiv, total returns in local currency as at 31.3.22

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. 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 the best way for our investors to implement the ideas discussed in this Outlook. We would like to thank, in particular: Wen-Wen Lindroth, Andrea Ianelli, Jeremy Osborne, Gary Monaghan, Leigh Himsworth, Jeremy Podger, Ayesha Akbar and Natalie Briggs.

Asset classes and world stock markets

While this quarterly Investment Outlook aims to keep investors abreast of developments in a range of different asset classes and geographical areas, the events of the past few years have shown how difficult it can be to predict how these will perform in any given circumstances. This is particularly relevant today as the investment landscape changes due to rising inflation and a reversal of the accommodative monetary policy that has prevailed since the financial crisis. Investors are having to relearn investment lessons from previous eras. In this evolving environment, the importance of diversification cannot be overstated.

For a video update on each asset class and region, scan the QR code on each article or visit **fidelity.co.uk/investmentoutlook.** Before you invest in a fund, please ensure you have read Doing Business with Fidelity and the Key Information Document (KID).

The risk-return spectrum

Managing investment risk is about balancing the chance of loss with the potential for returns over time. A higher level of investment risk – usually found in individual equities – often means that the potential for growth is greater, but there's also a greater possibility that the value of your investments might fall. At the other end of the spectrum, cash carries little or no investment risk other than the possibility that inflation will eat into the value of your savings. Bonds, especially those issued by governments, can be lower in investment risk, but they're also likely to deliver lower potential returns. Inflation can also be very damaging to the value of bonds over time due to their fixed income and fixed return of capital at maturity. This image shows the level of risk associated with the potential returns of a range of asset classes. A good way of ensuring your investments have a suitable level of risk is to diversify your portfolio across this risk-return spectrum.

Shares

Current view — Neutral
3 month change ▼ Downgrade

Shares have not performed well over the past three months. But what is perhaps surprising is that they have not performed worse. The list of things for investors to worry about is long and the resilience of equities in the face of the war in Ukraine, tightening monetary policy and continuing Covid fears is remarkable.

In particular, the V-shaped recovery in stock markets from the initial shock of Russia's invasion of Ukraine has been surprising. The worst conflict in Europe in nearly 80 years would be bad enough in itself. But the economic ramifications of this particular war, thanks to the region's dependence on Russia for energy and many other commodities, make the rally to pre-war levels a puzzle.

The war looks certain to reduce growth and increase an already worrying level of inflation. Recession in the region is possible. At the very least we face a return of stagflation. This is not a good environment for stock markets, although clearly the further away you move from the region the less its impact will be.

The other key story for equity investors, which pre-dated the war, and would have made things challenging anyway, is what we are calling the 'return of Volckerism', the Fed's full-scale assault on inflation. Expectations for the pace and extent of interest rate rises this year and next have accelerated since the start of the year. The risk is that rates go higher than expected and stay there for longer.

The third risk for stock markets is the ongoing Covid situation in China where Beijing is sticking to its zero-tolerance policy, even to the extent of shutting down its principal financial and commercial hub, Shanghai.

The positive case for shares has a few components. First, there is an element of TINA (there is no alternative) at work. Although the income attraction of bonds is improving, dividend yields are still competitive and have the potential to grow in an inflationary environment. Second, earnings growth is still reasonable, even if forecasts may well come under pressure as costs increase and consumer confidence wanes. Third, a great deal of the necessary valuation reduction has already taken place. Especially outside the US, markets are relatively cheap measured against earnings.

Shares are a better hedge against inflation than bonds, but the onus is on investors to seek out companies with pricing power, balance sheet strength and exposure to real assets.

For a brief video update on shares, scan the QR code or visit **fidelity.co.uk/investmentoutlook**

Bonds

Current view — Neutral

3 month change ▲ Upgrade

If I had been writing this Outlook a month ago, I would have stuck to my long-standing line that bonds should be avoided in an environment of high inflation and rising interest rates. Inflation eats into the purchasing power of both your income and capital return at maturity. You need a high yield to compensate for that and moving from a low to a high yield requires a painful reduction in price.

Today, I'm less militant in my anti-bond position because a great deal of the necessary price move may have taken place. In the past month, the yield on the 10-year Treasury bond has moved from about 1.7% to nearly 2.5%.

Shorter-dated bonds have moved even faster – which makes sense because they are more influenced by interest rate expectations. The 2-year bond's yield is up by nearly a full percentage point to around 2.3%. The difference between the 2 and the 10-year yields is now negligible, resulting in a so-called flat yield curve, which has always been a signal of tough economic times ahead.

And that is why it is now possible to make a better case for holding bonds than for quite some time. If we are heading towards a recession, then the Fed's current interest rate trajectory is likely to look far too ambitious. Investors may not need to be concerned about bond yields rising much further. If their capital is safe and they are collecting a 2.5% yield in the meantime, then the case for bonds is much stronger.

When it comes to corporate bonds, the picture is more complicated. Part of the calculation with investment grade and high yield bonds is the health of the economy and the likelihood of defaults by companies. The same argument that's a positive for government bonds can be a negative for corporates if investors demand a higher yield to compensate them for economic risks.

There is, however, quite a strong case for international diversification. Year to date, the only government bonds which have delivered a positive return are Chinese. They have also been a strong performer over one and three years. And the income paid is higher than on US, European and Japanese government bonds too.

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.

For a brief video update on bonds scan the QR code or visit **fidelity.co.uk/investmentoutlook**

Property

Current view — Neutral
3 month change ▶ Unchanged

In an inflationary environment, real assets can help an investor keep up with rising prices. And there is no more real asset than a building. The hint is in the name – real estate. One of the reasons that property has provided a safe haven in such periods is that index linked leases are expressly designed to protect a landlord. Long, inflation-adjusted rental agreements are less common than they were, but they are still the norm.

There is a problem, however. Not all inflation is the same. When prices rise because an economy is booming, real estate benefits. Demand for space rises and with it the price that a landlord can demand from potential tenants. When inflation is coupled with sluggish growth, however, or indeed is the cause of the stagnation, it's a different matter altogether. Stagflation is bad for real estate.

So, inflation, and its causes, is one concern for property investors. Others include the still unresolved disruption to patterns of occupation and consumption caused by the Covid pandemic. We still do not quite know the extent to which people will go back to the old working ways. Although the City is busy Tuesday to Thursday, it is less so at either end of the week. That has a huge impact on direct office and shop demand but also the viability of ancillary businesses like restaurants.

One of the great opportunities in real estate is investing in so-called alternative sectors, things like healthcare facilities and data centres. Sustainability is another key focus for property investors. Real estate is a key battleground in the fight against climate change. There is a chronic shortage of genuinely green buildings, an opportunity as well as a risk for the industry.

Then, there is the question of how much to pay for the income stream from a property. Quality of income matters (good tenants) as well as its duration and growth potential. Some of the biggest risks in the sector include the mispricing of tenant quality and over-optimistic rental growth assumptions, particularly in the logistics sector. Rental growth is closely correlated with GDP growth, so the growing risk of recession is a concern.

Coping with inflation, changing use patterns and the drive to net zero make property investment an increasingly complex matter. Exposure can be made through a diversified fund such as the Select 50's **iShares Global Property Securities Equity Index Fund**.

For a brief video update on property scan the QR code or visit **fidelity.co.uk/investmentoutlook**

Commodities

Current view — Neutral
3 month change ▼ Downgrade

Russia is a major player when it comes to a wide range of commodities. Top of the list, of course, are oil and gas but it is also a significant exporter of both metals and agricultural commodities. The principal economic impact of the war in Ukraine is, therefore, being felt via rising natural resources prices.

What is unclear is the extent to which price rises will be a flash in the pan, painful in the short term but having little long-term impact. Obviously, the length of the conflict and the speed with which more normal relations can be restored in its aftermath will be key.

Obviously, no-one knows the answers to those questions, which explains the wide range of forecast outcomes, particularly with regard to the oil price. Parallels with the 1970s oil shocks may or may not be relevant but are sobering. The oil price quadrupled following the Yom Kippur war in 1973 and trebled again after the Iranian revolution in 1979. On that basis, forecasts of $200 a barrel of oil do not look fanciful.

However, there are plenty of voices, such as leading oil price bear Citi, arguing the opposite case. Citi believes that demand is weaker than the bulls claim, that Shale will be quicker to switch back on and that under-exploited sources of oil such as Venezuela and Iran could fill the gap too. It believes oil could be back in the $60 range by the end of the year.

So, this may not be the moment to chase returns. Some exposure via producers (which will be breaking even at a significantly lower oil price than today's level above $100 a barrel) makes sense.

Investing via the miners rather than the commodity itself also looks like the best approach when it comes to gold. If you believe that the gold price will rise further from here then miners, with relatively fixed costs, will benefit proportionately more. We continue to believe that a diversified fund such as the **Ninety One Global Gold Fund** (one of our fund recommendations this year) will do well.

A picks and shovels approach to rising food prices has merit too. The prices of agricultural commodities are volatile, determined by a range of unpredictable factors including the weather. Better to invest in companies that will benefit from rising demand for food such as fertiliser and water-related businesses.

For a brief video update on commodities, scan the QR code or visit **fidelity.co.uk/investmentoutlook**

United States

Current view ✓ Positive
3 month change ▲ Upgrade

The US is relatively insulated from the effects of the war in Ukraine. Obviously rising food and energy costs will affect consumers in America just as they do elsewhere, but both represent a lower proportion of US household budgets, so the overall impact is lower.

The US is also a net exporter of energy and it only imported just over 3% of its oil needs from Russia last year. The decision to ban Russian energy imports was not a difficult one. The US also has a small surplus in agricultural trade. And, with the largest defence industry in the world, it will be a net beneficiary of higher defence spending in any new Cold War. Non-farm payroll employment continues to rise and wage increases are strong.

Put all this together and it is clear why the Fed is more concerned about inflation than growth and will most likely not be swayed from its planned tightening programme throughout the rest of the year. The only question mark is over how far rates rise and how long they stay there.

The case for US equities is strong. As long as inflation is not allowed to spiral out of control, the evidence is that company revenues rise in line with prices and that, far from squeezing margins, inflation can actually boost profitability due to pricing power and operating leverage. Strength in energy profits can anyway offset falls elsewhere.

What about valuations? The US is more expensive than most other markets but using today's cost of capital to calculate a fair valuation for the market suggests that US shares are actually better value than at previous moments when the headline Price/Earnings (P/E) ratio of S&P 500 was apparently similar. US companies are also better cash generators than they used to be (due to the different sector composition of the market today) which might argue for higher valuations.

America really is a lucky country. Geography and its natural resource abundance have always protected it and continue to do so. The Fed's dual mandate, targeting both growth and inflation mean it is always likely to err on the side of stimulating the economy. In that environment, shares are likely to offer investors the best protection. Tighter monetary policy creates a headwind, but the US still looks relatively attractive.

For a brief video update on the United States, scan the QR code or visit **fidelity.co.uk/investmentoutlook**

United Kingdom

Current view ✓ Positive
3 month change ▶ Unchanged

It's not often that we can say that the UK stock market has been a port in the storm. Over the past three months, however, our domestic market has outperformed all its main rivals thanks to its exposure to the few sectors that have benefited from the new inflationary environment, principally oil and gas and commodities. In fact, of the regional markets that we track, the UK is the only one to have kept its head above water in the first quarter of the year.

We know that the UK stock market's performance is only loosely correlated with that of the UK economy. Only around a quarter of the revenues of Britain's leading companies come from the home market and only half of those listed in the FTSE 250. So, what is happening to the oil price is at least as important as whether or not there will be growth or a recession in the UK this year or next. The two questions are of course linked because, if the economy does go backwards, it will be in large part due to the cost of living squeeze that's a consequence of soaring energy prices.

For an investor in the UK market, two key questions arise. To what extent is your fund exposed to the UK economy and how is your fund manager dealing with inflation. The key questions you should be asking of your UK investments include the following:

Are there stores of value in the fund, for example housebuilders which have built up land banks ahead of the recent inflationary surge? Does the portfolio have pricing power, for example via supermarkets holding the whip hand over smaller suppliers? How protected are the investments against rising input costs, for example through holdings in companies which add value through intellectual property such as media or technology stocks? Are there debts with fixed interest payments that will be inflated away? Is the return on capital high? Does this company operate in a niche area?

At the moment, recession is not the base case, but the recent Spring Statement pointed to a sharp drop in growth and a sharp rise in inflation. Stagflation is a difficult environment in which to invest. It requires a different mindset, more akin to that which protected investors in the 1970s: more real assets, commodities, gold. But if stagflation is what we face, the UK, on just 14 times earnings and with a dividend yield of around 4%, will continue to represent a safe haven compared to more growth-oriented markets like the US. As it has in the past three months, home bias may continue to look sensible.

For a brief video update on the United Kingdom, scan the QR code or visit **fidelity.co.uk/investmentoutlook**

Europe

Current view — Neutral
3 month change ▼ Downgrade

The war in Ukraine affects European investment markets for the obvious reason of proximity but also because of the high dependence of the region on Russian energy. Russia accounts for 40% of Europe's gas needs and the region is clearly vulnerable to both price and supply shocks.

The biggest risk is that Russia actually disrupts supplies to Europe, which would have significant knock-on impacts on a wide range of industries for which gas is a key input. Even if it does not (and with gas revenues amounting to perhaps €1bn a day there is good reason for it not to) then rising prices will exacerbate an already difficult inflation situation and increase the risk of a stagflationary growth shock.

Recession now looks like a base case for the region within the next year as rising fuel, food and energy bills weigh on household incomes. Clearly the longer the conflict continues the greater will be the impact on sentiment and risk appetite.

The role of the ECB has been further complicated by the war in Ukraine. Already far behind the US and UK in terms of the pivot to tighter monetary policy, the European Central Bank now looks very likely to become even more dovish in its approach. In combination with any further fiscal support for affected industries, this could position Europe attractively versus other regions.

Prior to the war in Ukraine, a strong case for investing in Europe could be made. The region offers investors better diversified revenues than most markets. As in the UK, around three quarters of sales are made outside the domestic market. The region is also home to high quality companies that are leaders in the industries of the future.

In recent years, sectors with strong structural growth drivers such as pharmaceuticals, consumer discretionary, industrials and technology have grown from a 30% share of the market to around 50%. Companies with low volatility, strong balance sheets and attractive dividend streams position the region well.

Whether or not to invest in Europe might seem to hinge on how the situation in Ukraine evolves but it's worth remembering that markets are quick to price in the range of likely outcomes. The significant underperformance of European equities year to date means that the valuation case for the region, strong before the war, is now even more supportive. The moment to reduce exposure to Europe has passed.

For a brief video update on Europe, scan the QR code or visit **fidelity.co.uk/investmentoutlook**

Asia and emerging markets

Current view ✓ Positive

3 month change ▲ Upgrade

There is really only one story in this region at the moment and it is China. The last two years have been very disappointing for investors in the country and the year to date has continued the underperformance.

The list of issues is long but a recent intervention by vice premier Liu He suggests that on several fronts there is cause for optimism. The first glimmer of hope came from Liu's clear suggestion that China is once again prepared to stimulate the Chinese economy. Perhaps not in the powerful way it did in the wake of the financial crisis but more so than during the pandemic. We can expect rate cuts, reduced reserve requirements for banks and more fiscal stimulus.

The second cause for optimism is an apparent retreat from the regulatory squeeze that has accompanied China's 'common prosperity' programme – a set of measures designed to promote social equality. China's approach from here is expected to be more transparent and predictable.

Thirdly, there is evidence that both China and the US are looking for ways to resolve a long running dispute over the adherence of Chinese companies listed in America to stringent US accounting rules. Although many of the affected companies have dual listings in New York and Hong Kong, the spat has affected sentiment.

A fourth positive surrounds China's hardline approach to Covid, although the lockdown of Shanghai suggests Beijing is not willing just yet to abandon its zero-Covid policy. Learning to live with the virus would be a major plus for supply chains and trade the world over.

A big unknown remains China's attitude to Russia's war in Ukraine. This matters because China is significantly more integrated with the global economy than Russia, with six times the contribution to global GDP. Economic sanctions on Russia have been damaging. Similar measures aimed at China would be worse.

There is clearly lots still to worry about when it comes to investing in China but if you can look through the headlines and the poor sentiment, it is possible to see a country that is easing policy rather than tightening, that is rowing back on damaging regulation, is growing its earnings and is cheap against its own history and versus other markets.

For a brief video update on Asia and emerging markets, scan the QR code or visit **fidelity.co.uk/investmentoutlook**

Japan

Current view — Neutral
3 month change ▼ Downgrade

Towards the end of 2021, things were looking up for Japan. The end of Covid restrictions in October coincided with an economic and earnings recovery. The relatively undemanding valuation of the Japanese market looked at odds with this improving fundamental backdrop. Then came Omicron and then Ukraine. Obviously neither of these are unique to Japan but the country is unusually exposed to their consequences, slowing global trade and rising inflation.

The Covid situation hit the country hard in December and January. The latest wave of infections was significantly more serious than earlier ones and led to a quasi state of emergency being announced in most prefectures, which is only now starting to be lifted alongside relaxed travel restrictions. There are still no plans to allow overseas tourists into the country, however.

The secondary impact of the war in Ukraine has been particularly painful for Japan. The country is dependent on energy imports, with only 12% self-sufficiency, and it imports around two thirds of its food. It is therefore vulnerable to commodity price spikes. The country's deflationary mindset also makes it difficult for companies to pass on higher costs. This represents a big margin squeeze for the corporate sector.

The overall inflation figures in Japan are skewed by a government imposed cut in telecommunications prices. Look through this and there is evidence of double-digit price increases for gas, electricity, fuel and food. The recent fall in the value of the yen will make imports even costlier. This is having an impact on consumption, which was anyway tepid as a consequence of Japan's ageing demographics.

It is a very difficult environment for investors in Japan, especially for fund managers focused on growth sectors which have underperformed value to a massive extent. Selling by foreign investors has been consistent and the valuation gap between Japan and the US has widened even further. Japanese shares are extremely cheap by historical comparison, even more so than in Europe, which obviously is much closer to the epicentre of the current geo-political crisis.

We recommended the **Baillie Gifford Japanese Fund** at the end of last year on recovery and valuation grounds. This is a good fund and will benefit from any improvement in the investing landscape in Japan. It has not been a good start to the year, but this is not the time to jump ship.

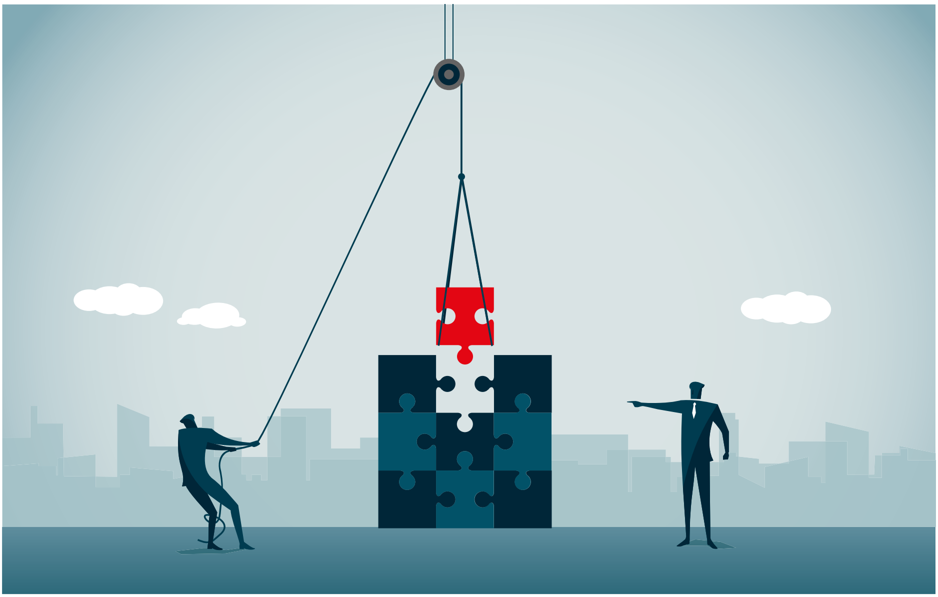
For a brief video update on Japan, scan the QR code or visit **fidelity.co.uk/investmentoutlook**

In summary

Investors may well consider themselves fortunate to have reached the end of the first quarter of 2022 with their portfolios as intact as they are. Three horsemen of the Apocalypse – War, Pestilence and the Death of central bank stimulus – have knocked on our door since the last Outlook. In the circumstances, the markets have held up with remarkable fortitude.

Looking back at our comments three months ago, we expected inflation, interest rates, earnings and valuations to be investors' principal concerns in 2022. All of these matter still but geo-politics and Covid have both re-appeared on our radars too. The outlook is more complicated than it seemed at the beginning of the year.

In this environment, a well-diversified portfolio will serve investors well. Shares and commodities are usually the best place to be in an inflationary period. But bonds could be a good diversifier again and some property, gold and cash would not go amiss either.



The Personal Finance and Markets Content team

Maike Currie

'As well as heading up the team, I appear on the BBC, Sky News and ITV to talk about investing and have a column in the FT. My favourite subject is investing for income, which I've written a book on.'

Emma-Lou Montgomery

'After some 20 years as a financial journalist, I'm still passionate about showing how easy it is to make more of your money, from investing to the day-to-day stuff. My spare time is family time.'

Tom Stevenson

'I've been writing about investing for 30 years. I provide investment insights, market commentary and have a weekly column in the Telegraph. In my downtime, I love to hit the road on my new Triumph.'

Ed Monk

'I joined Fidelity in 2016 after a career in finance journalism. I believe investing should be simple and I always try to bring my own experience to what I write – including the mistakes I've made.'

Jonathan Wright

'I've been at Fidelity for over 20 years. I love creating content that brings the world of investing to life. I make sure that every image and line works as hard as it can before publishing it.'

Becks Nunn

'I love creating customer-focused copy that connects on a really human level. If I'm not writing about investing, you'll find me spending time with my kids or writing stories for children.'

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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 31 March)	2017-18	2018-19	2019-20	2020-21	2021-22	Morningstar Fund Rating
Bonds						
ASI Global Inflation-linked Bond	1.1	2.2	3.8	4.6	3.7	★★★
Colchester Global Bond	-	-	-	-2.6	-2.9	-
Fidelity MoneyBuilder Income	1.6	3.0	1.3	8.2	-4.2	★★★
Fidelity Strategic Bond†	1.7	2.4	0.5	11.0	-4.9	★★★
Invesco High Yield	8.2	0.6	-10.7	25.7	3.1	★★★★★
iShares UK Gilts All Stocks Index	0.2	3.8	10.3	-5.7	-5.4	★★★★
JPM Global High Yield Bond	2.5	4.2	-8.2	22.3	0.1	-
M&G Corporate Bond	2.2	2.9	-0.5	10.9	-4.6	★★★★
PIMCO GIS Global Bond	2.2	2.3	2.7	5.6	-4.1	★★★★★

† 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.

% (as at 31 March)	2017-18	2018-19	2019-20	2020-21	2021-22	Morningstar Fund Rating
Alternatives						
Aviva Investors Multi-Strategy Target Return	-0.7	-1.2	1.1	7.0	4.3	★★★
Foresight UK Infrastructure Income	-	19.7	-1.1	10.8	10.2	★★★
iShares Global Property Securities Equity Index	-7.8	21.9	-19.2	22.2	20.4	★★★
Ninety One Global Gold	-9.8	11.8	13.6	18.4	29.0	★★★★
North America						
Brown Advisory US Sustainable Growth	-	-	-	42.6	18.0	-
JPM US Equity Income	-3.5	17.3	-7.2	33.3	20.4	★★★★
JPM US Select	-2.0	17.2	3.3	41.4	23.8	★★★★★
Majedie US Equity	-1.1	15.9	-3.3	50.7	10.9	★★★
Schroder US Mid Cap	-5.2	11.6	-14.8	55.2	7.5	★★★
Europe						
Barings Europe Select	10.5	-0.2	-9.9	46.1	-4.5	★★★
BlackRock Continental European	7.7	5.6	3.6	47.2	12.5	★★★★★
Comgest Growth Europe ex UK	4.3	14.6	5.3	28.7	11.1	★★★★★
Fidelity Funds – European Growth	0.2	7.5	15.5	26.8	2.1	★★
JOHCM European Select Values	-0.5	-1.4	-24.5	46.1	-7.9	★★★
Robeco QI European Conservative Equities	3.7	4.6	-7.0	17.0	10.2	★★★
UK						
Artemis UK Select	8.5	-4.2	-20.1	72.8	2.1	★★★
Fidelity Special Situations	4.4	1.2	-27.8	46.7	8.7	★★★
Fidelity UK Select	-0.3	10.8	-17.2	31.9	10.7	★★★★★
Franklin UK Equity Income	1.4	7.5	-18.1	26.3	14.6	★★★★★
JOHCM UK Dynamic	4.4	2.1	-27.0	40.8	11.6	★★★
JOHCM UK Equity Income	7.3	-0.9	-29.5	50.1	11.4	★★★
Lazard UK Omega	3.6	-0.4	-22.6	38.3	8.2	★★
Liontrust UK Equity	-3.1	2.9	-21.3	33.3	5.6	★★★
Liontrust UK Growth	2.6	7.2	-14.0	22.6	13.2	★★★★
Threadneedle UK Mid 250	9.2	-3.8	-18.1	53.3	-7.6	★★★

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 31 March)	2017-18	2018-19	2019-20	2020-21	2021-22	Morningstar Fund Rating
Asia and Emerging Markets						
Fidelity Funds – Asian Smaller Companies	-0.2	5.7	-27.4	58.2	5.6	★★★★
Fidelity Sustainable Asia Equity	13.6	4.5	-7.8	52.8	-12.4	★★★★★
JPM Asia Growth	19.3	7.0	-1.3	52.8	-16.2	★★★★★
Stewart Investors Asia Pacific Leaders	0.3	10.3	-9.3	40.7	4.0	★★★★
Japan						
Baillie Gifford Japanese	15.4	-1.1	-8.7	43.5	-8.5	★★★★
Lindsell Train Japanese Equity	20.7	0.5	4.5	-0.5	-16.5	★★★
Man GLG Japan CoreAlpha	1.8	-2.0	-19.2	29.2	8.7	★★
Global						
BNY Mellon Long-Term Global Equity	2.9	20.1	-0.6	28.2	13.0	★★★
Fidelity Global Dividend	-4.5	15.3	1.5	21.4	8.1	★★★★★
Fidelity Global Special Situations	4.5	6.3	-4.3	45.7	8.0	★★★★
Invesco Global Equity Income	2.4	3.8	-15.8	40.9	12.2	★★★
Rathbone Global Opportunities	11.7	13.9	3.6	39.5	9.0	★★★★★

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

Source: Morningstar from 31.3.17 to 31.3.22. 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

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