INVESTMENT OUTLOOK

Fidelity Personal Investing's market and investment view

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- Strong start to the year

April 2023

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Fidelity INTERNATIONAL

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Important information – 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. 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 one of Fidelity's advisers or an authorised financial adviser of your choice.

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	—	▼	Last year was about valuations. This one will be focused on earnings. The question is how much damage the rate tightening cycle has caused.
Bonds	✓	▶	As we approach the top of the interest rate tightening cycle, government bonds look to be more attractive than corporates.
Property	—	▶	The outlook for real estate is uncertain with rising interest rates, stressed banks, weak demand and new environmental regulations.
Gold	✓	N/A	Gold is approaching an all-time high but there is still a strong case for holding some of the precious metal in a diversified portfolio.
Cash	✓	▲	Rising interest rates have made cash a viable asset to hold as an investment and not just as a source of dry powder or an insurance.

Regions	Current view	3 month change	At a glance
US	—	▼	The US is the world's most expensive stock market and looks relatively vulnerable in the face of earnings and interest rate challenges.
UK	✓	▶	The UK market is unloved and cheap. With income appeal and M&A interest, it is worth a place in a balanced portfolio.
Europe	✓	▲	Europe has been the surprise performer in the past six months. A better earnings outlook and reasonable valuations remain a plus.
Japan	✓	▶	Back on investors' radars, Japan is a play on global growth and its companies' conservative, cash-rich balance sheets are a source of value.
Asia Pacific ex-Japan	✓	▶	There are good long, medium and short term reasons to be positive on the outlook for emerging markets as China re-emerges from Covid.

Keeping the glass half full

My quarterly catch ups with investment colleagues in recent weeks have been characterised by uncertainty. The markets are in limbo. The performance of the main indices over the past six months has been gratifyingly strong but there is a nagging feeling that central banks have squeezed the real economy too hard in a bid to get inflation under control. Recession looks more likely than not.

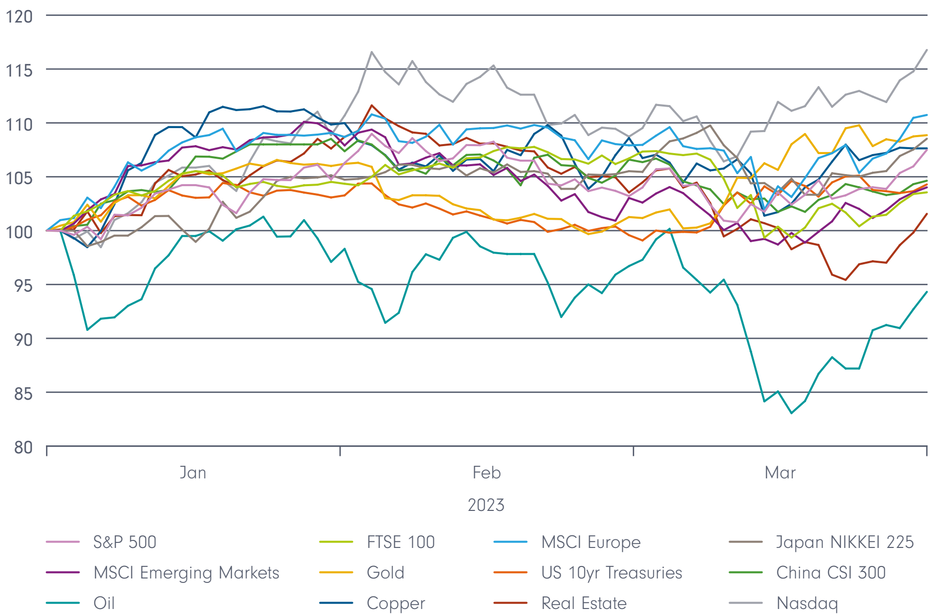
The first three months of 2023 have lacked a clear sense of direction. The first few weeks built on the strong rally since last October, offering us hope that a so-called soft landing really was on the cards. We allowed ourselves to believe that the Federal Reserve had pulled off the hardest trick of all for a central bank, tightening policy just enough to overcome inflation while keeping the economy on track. That may have been asking too much.

Jerome Powell, the Fed chair, gave us fair warning in February that he was determined to protect his reputation as a prudent guardian of price stability – he is modelling himself on Paul Volcker, the Fed chair that defeated inflation in the 1980s, rather than Arthur Burns, who in the same role lost control of prices in the previous decade.

Tough talk from the Fed has shortened the odds on the US falling into a recession at some point this year, an outlook which had already been baked into forecasts on this side of the Atlantic. That, in turn, made analysts' still optimistic estimates for corporate earnings look wide of the mark. And against that backdrop, Wall Street's valuation looks too punchy.

As if this were not enough to spook investors, March brought a new concern. The collapse of Silicon Valley Bank (SVB) triggered a few weeks of nasty flashbacks to the 2008 financial crisis. No-one was quite sure whether the problems at SVB were specific to the bank or something more darkly systemic. Depositors erred on the side of caution and started to withdraw their money from any bank that looked vulnerable. The biggest casualty on this side of the pond was Credit Suisse, snapped up by UBS in a hastily arranged deal, the main purpose of which was to pre-emptively calm markets.

What is remarkable about the first quarter of 2023 is how sanguine investors have been. As the chart on the next page shows, the markets are adopting a glass half full approach to this cocktail of concerns. The consensus remains that inflation is on its way down, that interest rates will follow suit and that China and other emerging markets can pick up the growth baton. Investors are looking through the prospect of a mild recession to better times ahead. We must hope this is not wishful thinking.



Source: Refinitiv, total returns in local currency, 1.1.23 to 31.3.23

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 page 7.**

In part, the market's resilience is a reflection of the importance of technology stocks to the overall level of the US market. The main outlier in the performance chart for the past three months is the Nasdaq index. Tech stocks were hammered last year as the rapid increase in interest rates was priced in. It was always likely that the approach of the peak in the interest rate cycle would reverse that trend. And indeed, the performance of the top ten US stocks is pretty much the inverse of the other 490 shares in the S&P 500.

Most of the other indices are bunched around a six-monthly rise in the high single digits. On an annualised basis, that represents a strong performance, and no-one will complain about those returns in the face of all the financial and economic uncertainty we have had to digest in recent weeks.

Looking ahead

For now, it looks as if the market low last October could be it as far as this cycle is concerned. But there are a lot of moving parts to take into consideration. The most important of these is the extent to which the recent concerns in the banking sector feed through into the real economy in the form of lower lending, a kind of mini credit crunch. We have already seen the knock-on impact of bank stresses in real estate. When the tide goes out you see who has been swimming naked. The tide in this case is the reversal of 15 years of cheap funding and we still don't know who will be left stranded.

The other key concerns are continuations of last year's worries. How persistent will inflation remain in 2023 and how much leeway will that give central banks to support the economy and protect financial stability by reducing interest rates? There is still a gap between what the central banks are saying and what the markets have priced in. And we should be careful what we wish for. A drop in interest rates might provide a sugar rush for the markets until they start to focus on why rates are falling.

So, there's plenty to worry about. But investors should also think about what could go right this year. The unexpected reversal of China's zero-Covid policy has changed the outlook for the world's second biggest economy and for the many emerging markets in China's orbit. One area of consistency in my conversations with investors has been a positive view of the outlook for emerging markets. The fall in interest rates that underpinned our enthusiasm for government bonds three months ago has been delayed not cancelled. Some markets – the UK and Japan among them – continue to look cheap. Chinese re-opening is a positive for key commodities like oil and copper. Gold looks like a safe haven.

So, despite the various concerns, we are not gloomy. A defensive approach, including broad-based diversification, makes sense. But there are plenty of positives on which to focus.

(as at 31 March)	2018-19	2019-20	2020-21	2021-22	2022-23
S&P 500	4.7	8.2	31.3	16.4	-7.7
Nasdaq	15.6	14.2	37.2	25.3	-0.4
FTSE 100	2.2	-2.7	1.4	19.2	9.6
MSCI Europe	-4.9	0.0	20.9	7.4	-0.4
Nikkei 225	-1.1	1.0	39.6	-6.9	5.8
MSCI Emerging Markets	-9.5	-1.5	36.5	-10.4	-14.9
Gold	-0.8	18.2	7.2	9.2	-4.0
Oil (WTI Crude)	-5.4	-21.8	-16.1	61.8	0.1
US 10yr Treasuries	4.0	17.5	0.1	-1.2	-14.1
China CSI 300	-6.8	9.8	38.3	-12.6	-9.1
Copper	-4.9	-14.3	62.7	8.5	-9.8
Real Estate (S&P Global REIT)	15.0	3.8	2.1	17.6	-12.4

Source: Refinitiv, total returns in local currency as at 31.3.23

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 our Select 50 list. 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, Neil Cable, 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, recent events have shown how difficult it can be to predict how these will perform in any given circumstances. This is particularly the case today as the full impact of a very rapid tightening of monetary policy in the face of persistent and high inflation starts to be felt. As ever, investors find themselves in familiar but uncharted territory. In this evolving environment, the importance of diversification cannot be overstated even if a simple bond/equity split has failed to deliver more recently. Investing is proving to be more challenging than ever against a fast-changing backdrop, but there are always opportunities and we hope this Outlook will help to identify these.

For a video update on each asset class and region, scan the QR code on each article or visit **fidelity.co.uk/investmentoutlook**

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 and rising interest rates 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

Last year was all about a valuation reset for the market as investors priced in the likely impact of a bigger and faster rate hiking cycle. This year attention will shift to the earnings side of the equation. We have now seen how central banks reacted to high and persistent inflation. What we don't know is how that policy response will feed through into the real economy.

The outlook for corporate earnings has been complicated in recent weeks by concerns in the banking sector. Rising interest rates were always going to provide a headwind for companies (lower demand, higher costs) but now financial conditions are pushing in the same direction as central bank policy. The danger is that the two combine to push the economy deeper into recession than would be required simply to get on top of inflation.

For a long time, analysts remained optimistic about the outlook for company earnings. They have now become more realistic, and the consensus is for a small decline in profits for 2023 as a whole. History suggests this is still too optimistic. A double digit fall in earnings looks more likely.

In due course, central banks will change course and interest rates will come down again. The question is how much damage will have been done by then. That is the problem of waiting for evidence of falling inflation and a slowing economy before implementing a policy pivot. It's understandable that central banks should err on the side of caution, but it comes at a cost.

The next key question for investors is how much of this outlook is now priced into the market. And here there is no one-size-fits-all answer. Many investors are now distinguishing between the US, where pressure on margins and earnings is arguably not reflected in a still relatively high valuation multiple, and other markets in the UK, Japan, Europe and the developing world, where multiples are more realistic.

The other key regional difference is that China is only just emerging from Covid, delivering the kind of boost to demand that we enjoyed a couple of years ago. That is spilling over into other Asian and emerging markets. Although markets have largely moved together during the recovery of the past six months, that correlation may break down this year.

Global funds are well represented on the Select 50 list. Two featured in our fund recommendations this year are the defensive **Dodge & Cox Worldwide Global Stock Fund** and the much more high-octane **Edinburgh Worldwide Investment Trust**. The latter is more volatile, invests in less liquid and smaller companies and is very much an 'eyes wide open' investment.

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

Bonds

Current view ✓ Positive | 3 month change ▶ Unchanged

Government bond prices fell sharply last year as central banks raised interest rates. This carried through into corporate bonds, where performance was further hit by a widening of the spread between their yields and those on safer government issues.

So far this year, the tide has turned the other way for government bonds as investors have started to price in falling interest rates again. For corporate bonds the impact has been more muted because yield spreads have continued to widen as the probability of recession has increased. This is likely to be the picture for the foreseeable future.

The first three months of the year have not been without interest for bond investors. In particular the collapse of SVB was a direct consequence of rapidly rising interest rates and the bank's failure to manage the impact on its holdings of US Treasuries. Although SVB's problems are viewed as company specific, we cannot yet rule out a more systemic problem.

The banking crisis in March highlighted the importance of understanding the risks you are taking when investing in bonds. One class of riskier bonds was unexpectedly wiped out during the takeover of Credit Suisse by UBS. It was a useful reminder that bond investing is complex and perhaps best navigated using a diversified fund managed by experts.

What does seem certain is that the willingness or ability of banks to extend credit to businesses in need of loans will be reduced this year and that will slow the economy and raise the risk of company failures. This backdrop means investors are likely to favour government bonds, which are more a play on the direction of interest rates, over corporates, which also carry an element of default risk.

Not all countries will see interest rates fall at the same time or at the same pace. We think Gilts are less attractive than US Treasuries or European bonds. A global government bond fund is a good option, which is why we recommended the **Colchester Global Bond Fund** at the end of last year.

When it comes to corporate bonds, investors have to weigh up the yield they can achieve with the company specific risk that comes with it. At the moment, investment grade corporate bonds look more attractive than high yield bonds, despite the latter's apparently better yield.

As already mentioned, we like the **Colchester Global Bond Fund**. A passive alternative might be the **iShares Global Government Bond ETF**.

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 investments 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

Property companies are exposed to rising interest rates. Steady rental income and stable valuations are reassuring to lenders, so property investors have never struggled to finance either development or investment with borrowed money.

But just as many residential mortgage holders are discovering, refinancing a loan that was taken out when interest rates were close to zero is a lot harder when they have risen in just over a year to nearly 5%. The tide of cheap money is ebbing away and, as it recedes, we are discovering who is most exposed. That's the first problem facing commercial real estate. Unfortunately, there are three others.

The second problem is on the other side of this close relationship between property and banks. It is estimated that smaller banks account for around 70% of commercial real estate loans in the US. And those loans represent 43% of their assets. You can see why people are concerned although this is a much bigger problem in the US than on this side of the Atlantic.

The third challenge for real estate investors is that the rising cost of financing their properties and their dwindling access to that finance is being compounded by less demand for space. Around 40% of UK office workers do at least one day a week at home, more than three times as many as before the pandemic.

The final headwind for property investors is climate change. It is estimated that buildings account for nearly 40% of total carbon emissions. According to Savills, around three quarters of UK offices fall below the minimum efficiency standards due to be in place by 2030. This could make many properties obsolete.

Commercial property is an illiquid market in which values can take some time to catch up with reality. There may be a lack of real transaction data to provide a clear picture. So, the best guide for investors is to look at publicly quoted property funds, where the share price may be a more reliable indicator than the reported asset value.

The **Balanced Commercial Property Trust**, a closed-ended fund on the Select 50 list, currently trades at a 32% discount to the book value of its assets, which shows that values may have further to fall. But for more adventurous investors, it might also point to an overshoot. Passive investors could consider the **iShares Global Environment and Low Carbon Tilt Retail Estate Index**.

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 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.

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

Gold

Current view ▲ Positive | 3 month change N/A

One of the best performing assets since last autumn has been gold. At the beginning of November an ounce of the precious metal would have cost you around $1,600. Today it is just over $2,000 where it is flirting with its all-time high. For that reason, we are focused on gold in this quarter's commodity outlook.

It is no coincidence that gold rose in 2020 and again this year. A global pandemic and a banking crisis could hardly provide a better test of gold's safe haven characteristics.

In one regard the performance of gold in recent months is a puzzle. Offering no income to investors, gold tends to underperform when real, inflation-adjusted interest rates are high. As inflation eases but central banks keep policy tight, you might have expected the price of the metal to fall.

One possibility is that investors believe that inflation may well prove stickier even as central banks cut interest rates to support the economy. This combination of falling real rates and uncertainty would be good for gold.

While the short-term outlook for the gold price is uncertain, the case for holding a small amount in a portfolio as an insurance policy and store of value is compelling.

The first reason to consider holding some gold is its lack of correlation with other assets. It tends to behave differently than bonds and shares. Last year, for example, it ended the year roughly where it started while both the other assets lost ground.

Secondly, it has tended to hold its value over the long haul, even if it can be a volatile investment in the short term. At times of stress there will always be willing buyers of gold. Last year, for example, central bank demand stood at a 55-year high.

Thirdly, gold has tended to act as a hedge against inflation. Looking back over recent history, periods of outperformance have tended to coincide with a rise in the inflation rate – the late 1970s being the most obvious case in point.

Fourthly, gold tends to do well when the dollar is weakening and it becomes cheaper for overseas buyers in places like China and India. With the US expected to cut interest rates faster than elsewhere this year, the dollar may well have peaked for the time being.

The Select 50 offers two practical options for investing in gold. Investing in the metal itself is best done through an exchange traded product like the **iShares Physical Gold ETF**, while an indirect investment through gold mining shares can be achieved via the **Ninety One Global Gold Fund**.

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

United States

Current view — Neutral | 3 month change ▼ Downgrade

The US stock market has enjoyed a strong start to 2023. Increasingly it looks as if the low point reached in October might be it as far as last year's bear market is concerned. What is less clear is whether last autumn marked the start of a new bull phase or just the beginning of a period of sideways drift.

Four things will determine which of these it turns out to be: earnings, valuations, inflation and interest rates. Perhaps the most important of these in 2023 will be earnings because, if last year was all about a valuation reset, then this year is likely to be focused on profits.

At the time of writing, we are gearing up for the first quarter earnings season. Analysts seem to be more realistic about the impact of rising interest rates and higher input costs on the earnings outlook and the consensus is for a year-on-year decline of about 8%, followed by something similar in the second quarter. For the year as a whole, the expectation is for a low single digit decline in profits. That feels too optimistic and at odds with the expectation that the US is heading towards a mild recession.

As for valuations, the US market has been stuck in a range between about 15 times expected earnings and 18 times ever since last summer. That range is not unreasonable if earnings turn out to be more resilient than we expect. But if the usual recessionary decline happens then it feels a bit too punchy.

The big question then is when the Fed feels that it is able to take its foot off the monetary brakes. Needless to say, this is key to the future direction of markets. We have already seen in the first three months of the year how changing expectations about interest rates can drive share prices.

What investors need to see over the spring and summer is evidence that earnings are holding up, or hints that the Fed is moving towards an easing bias, or both. Of course, a major shift downwards by the Fed would probably signal a worsening earnings outlook and vice versa. So perhaps we should be careful what we wish for.

Relatively speaking, high valuations and a weak earnings outlook argue against a big overweight to US shares. It rarely makes sense to bet against Uncle Sam, but for now there look to be better opportunities in other markets.

For those who wish to maintain an exposure to the world's biggest stock market (which makes sense), the Select 50 has a good range of US funds. The **Brown Advisory US Sustainable Growth Fund** is a good growth-focused option and complements the more value-focused approach of the **Dodge & Cox Worldwide US Stock Fund**. For low-cost US exposure, we have the **Vanguard S&P 500 ETF**.

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

The UK stock market is now a 'backwater' in global terms, according to the well-known fund manager Nick Train. It's easy to see what he means. Over the past 20 years or so, UK pension funds and insurers have slashed their holdings of domestic stocks. The performance of the London market has lagged far behind rival indices. And there is a shortage of investment opportunities in the growth sectors of the future such as technology.

Of course, that hasn't stopped the FTSE 100 being a strong performer over the past year or so but that is an anomaly caused by the invasion of Ukraine and the heavy weighting of the UK market to energy stocks. For domestic investors, it does raise an important question of how much exposure we should have to the UK and the answer is probably a bit less than we do.

This is not to say that in the short term the UK won't continue to perform reasonably well. And the main reason for this is that it is very cheap. The FTSE 100 currently trades on less than 11 times expected earnings. That is a huge discount to the US market and makes UK shares cheaper than those in Europe, Japan and Asia Pacific too.

This in turn makes the UK a very attractive hunting ground for overseas companies looking to pick up on the cheap some of the very high-quality businesses we continue to create in this country. A recent survey by the broker Numis found that most FTSE 250 bosses are looking over their shoulders at potential predators, largely from the US. Buying a share in the hope that it will get taken over is not a great long-term investment strategy but at the margin it could push up returns.

There is, of course, a reason why investors are nervous about the outlook for the UK economy. The housing market is fragile, the cost-of-living crisis continues to bite, wage inflation is squeezing margins, and we are still working out how to make the best of our post-Brexit trading arrangements. However, as we know, the UK market is only loosely tied to the health of the UK economy.

A well-balanced portfolio for a UK investor is always likely to have an exposure to our domestic market. It need not be much in excess of the London market's weighting in global terms, however, which probably means no more than 10%, perhaps a bit more currently to reflect the valuation advantage.

Income seekers should look at the **Franklin UK Equity Income Fund**. Other options on the Select 50 include **Liontrust UK Growth** and **Fidelity Special Situations**, with a growth and value focus respectively. We also have low-cost passive funds tracking the FTSE 100 and FTSE 250.

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

Europe

Current view ✓ Positive | 3 month change ▲ Upgrade

On a six-month view, Europe has been outstanding. Since last autumn, the Stoxx 600 index has provided investors with a total return of around 30%, remarkable when you consider how we were talking about the region a year ago in the wake of the invasion of Ukraine. What matters is not how good or bad things are but how that reality compares with investors' perception of it.

Six months ago, European investors were anticipating a winter under the shadow of energy shortages and sky-high prices for both household gas and petrol. In reality, an unusually mild winter and well-stocked storage facilities kept a lid on the cost of heating our homes and filling our cars. What looked like an all but certain recession in Europe was averted and markets responded positively.

A second unexpected positive for the region was China's U-turn on its zero-Covid policy. Europe is particularly exposed to events in China due to its exports of cars and luxury goods. So, the re-opening of the Chinese economy could not have come at a better time. The deteriorating relations between China and the US also play to Europe's strengths.

Putting both of these factors together, it is perhaps unsurprising that growth forecasts for the region turned up during the quarter. Positive economic growth is feeding through into corporate earnings. While forecasts are drifting in the US, Europe is heading the other way. A positive fourth quarter earnings season was characterised by a higher than usual number of companies beating top-line sales estimates.

Europe is the only region where earnings revisions are now positive. Coupled with improving sentiment and a slightly better direction of travel for the inflation data, it is not surprising that Europe's stock markets have been relative outperformers.

The fly in the ointment at the moment is the ECB, which seems determined to press ahead with its interest rate tightening cycle. Its most recent half percentage point hike was twice the quarter point rise in both the US and UK. Rising input costs and higher wages mean it could be some time before inflation returns to target.

Since the financial crisis, European shares have consistently underperformed the US but in recent months that situation has reversed. With much cheaper valuations, good growth prospects and improving fund flows into the region as uncertainty diminishes, that relative outperformance looks sustainable.

The Select 50's Europe category provides a good spread of investment styles. Growth opportunities can be played via the **Comgest Growth Europe Fund**, which looks for high quality companies with strong margins. A more defensive, value-focused option would be the **Schroder European Recovery Fund**. The passive option is the **Vanguard FTSE Developed Europe ex UK ETF**.

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

Japan

Current view ✓ Positive | 3 month change ▶ Unchanged

Investors who have stuck with the Nikkei 225 over the long haul don't have much to complain about. If you had invested £100 in the Tokyo market 20 years ago you would have £350 today. That compares with £200 in the FTSE 100 over the same period.

Japanese shares do have a habit of going to sleep for extended periods, though. And the last two years have been one of those times, as the country has emerged from Covid in painful slow motion. It's only in the past few months that the country has re-opened its borders and even now the number of Chinese tourists, to take one very important measure, is running at just 7% of the same month in 2019.

So, what's the case for having an exposure to Japan in your portfolio? The principal argument is that the country remains one of the best plays on a recovery in global demand. Its proximity to China and its expertise in machinery, robotics and automation mean it is indispensable to its big neighbour. New orders are improving, access to components has eased as supply chains have loosened and the terms of trade have improved as commodity prices have fallen.

The second part of the case for Japan is that finally it seems to be pulling itself out of its long deflationary slump. Flat prices and sluggish wage growth might sound good from the perspective of Western economies suffering from high inflation, but deflation reduces an economy's vigour. Encouraged by the government, companies are finally rewarding their workers with higher salaries.

A third reason for investing in Japan is that there remains huge value hidden in Japanese companies. Half of them have net cash on the balance sheet (way more than in the US and UK) and about the same proportion are valued at less than the book value of their assets. The Tokyo Stock Exchange recently pushed through a number of measures to encourage companies to use their capital more efficiently. The amount of money being directed towards buybacks and dividends is increasing year after year.

Finally, changing faces in both government and the Bank of Japan could lead to a move away from the yield curve control that has kept interest rates at rock bottom in Japan. This could lead to money flowing back to Japan and to a rising yen. This would enhance the value of Japanese investments to a sterling-based investor.

So, Japan has a place in a well-diversified portfolio. The Select 50 offers a balance of growth potential through the **Baillie Gifford Japanese Fund** and a more contrarian, value focus via the **Schroder Japan Growth Fund**, an investment trust that specialises in smaller companies. Passive investors can get exposure to the Japanese market through the **iShares Core MSCI Japan ETF**.

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

Asia and emerging markets

Current view ✓ Positive | 3 month change ▶ Unchanged

Is now the moment to get back into emerging markets? Six months ago, it looked unlikely. Russia's shares had been written down to zero and China was doubling down on a seemingly irrational Covid containment policy. Things look different today. China is opening up and while Russia remains a pariah that's behind us now from an investment perspective.

For a decade, emerging markets have played second fiddle to the technology-driven US market. While the developing world's stock markets have gone sideways, with plenty of sleepless nights along the way, the US has soared. By its peak at the start of last year, the S&P 500 had trebled since 2013. But as the US benchmark tumbled in the first nine months of last year, the EM index followed suit, only more so.

So, emerging markets are exhausting. We know that. Longer term it's a better picture performance-wise. Over 20 years, EM has tracked Wall Street. But, perhaps unsurprisingly, many investors have taken the view that similar returns with more volatility is not a great trade-off. Global portfolio managers remain underweight.

So, are investors right to be wary? Or does the last decade's underperformance set us up, as it has from time to time in the past, for an extended period of outperformance?

The case for investing in emerging markets has three timescales. The long-term argument is one we are all familiar with. They account for: 70% of the world's population and half of its land mass; 40% of its economic output; and 60% of its growth. There are many opportunities in sectors that target a growing middle class such as consumer finance, for example.

The second, medium-term timescale reflects the transition from the post financial crisis era of US exceptionalism. With profit margins at unsustainably high levels, sky-high debts and a weakening currency, the US compares unfavourably with an emerging world with more sustainable borrowings, healthier current accounts and better demographics.

And then there's the short-term case, which has two principal drivers: the re-opening of China and attractive valuations. The recent rally in response to the improving backdrop in China has barely made a dent in the differential between emerging markets on around 12 times expected earnings and the US on 18.

The Select 50 has a good spread of funds with different investment styles and geographic focus. Growth focused options include the **Comgest Growth Emerging Markets Fund**, **Fidelity Asian Smaller Companies** and **Stewart Investors Asia Pacific Leaders Sustainability Fund**. Value investors should look at **Schroder Oriental Income**, an investment trust, and **Lazard Emerging Markets**.

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

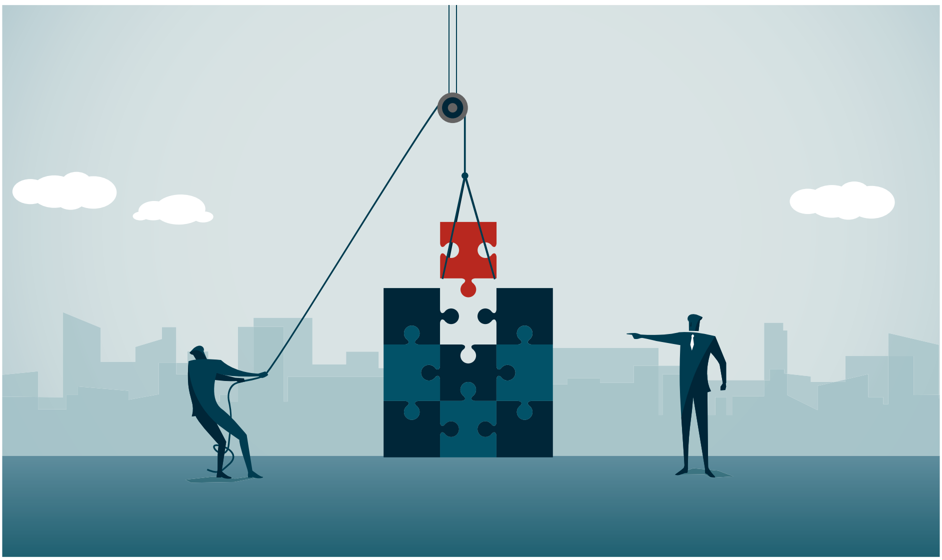
In summary

Markets have stabilised after the ordeal of 2022 when investors incurred losses pretty much across the board. The low point reached in October looks like it could well have marked the bottom of the bear market despite our fears three months ago that we might retest that level again at least once this year.

The resilience of the market so far this year is remarkable when you consider the challenges investors have faced - unambiguous confirmation by central banks that they are determined to beat inflation, even if that means a painful recession and stress in the banking sector. For now, an unexpectedly strong labour market is keeping things on track.

The challenge this year is likely to shift from inflation and interest rates to whether or not the economy's landing is hard or soft and how well corporate earnings hold up in that recessionary environment.

There's plenty to worry about, but reasons to be cheerful too. We are close to the peak of the monetary tightening cycle. Things will get easier from here. And meanwhile, the world's second biggest economy is breaking out of its self-imposed Covid isolation. Spring is once again in the air.



Welcome to Fidelity's Investor Centre

Come and meet us face-to-face at our Investor Centre in London, which is conveniently located opposite Cannon Street station.

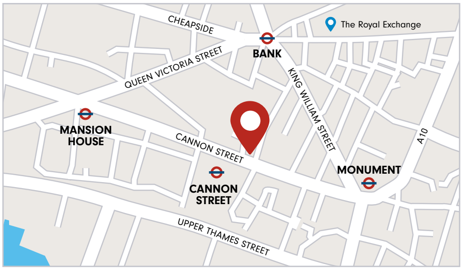
There's no need to book an appointment. Simply pop in if you need support with any of the below:

- **Help with opening an account** – whether you're a new or existing customer we can support you with application forms and verifying identification documents.
- **Assistance with legal documents** – such as helping with Power of Attorney certification, or showing you what to do when someone you love dies who invests with us.
- **General investment guidance** – we can also take you through the online tools on guidance that are on offer.

If you'd like to find out more about our Wealth Management and Advice services (for anyone who has over £100k to invest or more complex financial needs), please get in touch to make an appointment.

Or, if you're already a Wealth Management member, the Investor Centre is a great place to catch up with your Relationship Manager or Adviser.

How to find us:



111 Cannon Street
London
EC4N 5AR

We're open Monday to Friday, from 9am to 5pm, excluding bank holidays.

Soraya Wetherell,
Investor Centre Manager

Pop in or call us to make an appointment:

0800 368 6818

The Select 50:
Our favourite funds – selected by experts

With thousands of funds to choose from, building your portfolio can be a real challenge but Select 50 can help you choose from the range of funds available on our website. 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 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)	2018-19	2019-20	2020-21	2021-22	2022-23	Morningstar Fund Rating
Asia and emerging markets						
Comgest Growth Emerging Markets Fund	-2.0	-15.1	33.9	-22.2	-1.8	★★
Fidelity Funds – Asian Smaller Companies	5.7	-27.4	58.2	5.6	8.9	★★★★★
HSBC MSCI All Countries Far East ex Japan ETF	-0.2	-7.6	40.8	-16.0	-2.3	★★
iShares Core MSCI Emerging Markets ETF	-1.3	-14.7	44.8	-5.5	-4.6	★★★★
Lazard Emerging Markets Fund	-7.1	-18.9	35.7	1.7	0.5	★★★
Schroder Oriental Income Fund	2.8	-18.1	50.0	0.8	-0.3	★★★★
Stewart Investors Asia Pacific Sustainability Fund	10.3	-9.3	40.7	4.0	-1.7	★★★★★

% (as at 31 March)	2018-19	2019-20	2020-21	2021-22	2022-23	Morningstar Fund Rating
Bonds						
AXA Sterling Credit Short Duration Bond Fund	1.2	-1.1	5.6	-1.6	-1.1	★★★★
Colchester Global Bond Fund	-	-	-2.6	-2.9	-1.9	★★★
iShares Global Corporate Bond ETF	9.3	7.1	-0.4	-1.8	-1.3	★★★
iShares Global Government Bond ETF	6.4	11.9	-9.2	-3.0	-4.0	★★★
JPM Global High Yield Bond Fund	4.2	-8.2	22.3	0.1	-5.6	-
Legal & General Emerging Markets Government Bond Index Fund	-1.2	-2.0	0.7	-3.6	5.4	★★★
M&G Corporate Bond Fund	2.9	-0.5	10.9	-4.6	-7.8	★★★★
M&G Emerging Markets Bond Fund	8.6	-4.7	10.0	-3.2	5.1	★★★★★
M&G Global Macro Bond Fund	7.3	11.4	-3.5	-1.0	-1.4	★★★
Royal London Short Duration Global Index Linked Fund	1.8	1.9	5.4	4.7	-3.0	★★★★★
Vanguard Global Short-Term Bond Index Fund	1.7	2.0	1.9	-3.4	-1.5	★★★★
Europe						
Comgest Growth Europe ex UK Fund	14.6	5.3	28.7	11.1	6.7	★★★★
Schroder European Recovery Fund	-3.0	-26.2	54.2	7.7	15.7	★★
Vanguard FTSE Developed Europe ex UK ETF	2.2	-8.1	34.5	6.1	8.2	★★★★
Global						
BNY Mellon Long Term Global Equity Fund	20.1	-0.6	28.2	13.0	2.1	★★★★
Dodge & Cox Worldwide – Global Stock Fund	5.6	-18.6	53.8	15.5	2.8	★★★★
Edinburgh Worldwide Investment Trust	18.3	-1.1	82.0	-32.0	-30.4	★★
Fidelity Global Dividend Fund	15.3	1.5	21.4	8.1	4.8	★★★★
Fidelity Global Special Situations Fund	6.3	-4.3	45.7	8.0	-5.8	★★★★
Rathbone Global Opportunities Fund	13.9	3.6	39.5	9.0	-6.6	★★★★★
Schroder Global Recovery Fund	3.1	-25.0	54.3	9.7	8.5	★★
Vanguard FTSE All-World ETF	10.1	-5.7	38.0	12.9	-2.6	★★★★
Japan						
Baillie Gifford Japanese Fund	-1.1	-8.7	43.5	-8.5	-5.4	★★★★
iShares Core MSCI Japan ETF	-1.5	-3.5	26.4	-3.7	2.2	★★★★
Schroder Japan Growth Fund	-11.5	-14.1	40.6	0.5	2.4	★★★★

The Select 50 is liable to be changed between publication dates for the Investment Outlook. For the most up-to-date list please visit fidelity.co.uk/select

% (as at 31 March)	2018-19	2019-20	2020-21	2021-22	2022-23	Morningstar Fund Rating
North America						
Brown Advisory US Sustainable Growth Fund	-	-	42.6	18.0	-4.0	★★★★
Dodge & Cox Worldwide – US Stock Fund	11.5	-16.8	56.9	19.8	-2.0	★★★★
T.Rowe US Smaller Companies Equity Fund	19.8	-2.7	56.5	5.9	-6.0	★★★★★
Vanguard S&P 500 ETF	17.6	-0.6	38.0	22.3	-4.2	★★★★★
Alternatives						
Balanced Commercial Property Trust	-11.7	-34.2	-1.7	70.4	-24.9	-
First Sentier Global Listed Infrastructure Fund	14.2	-10.8	19.8	13.7	-5.5	-
International Public Partnerships Limited	14.8	6.6	12.9	7.5	-12.4	-
iShares Environment and Low Carbon Tilt Real Estate Index Fund	21.9	-19.2	22.2	20.4	-18.9	★★★
iShares Physical Gold ETC	5.3	29.9	-4.7	19.4	8.0	-
Ninety One Diversified Income Fund	3.6	-5.4	14.3	-1.2	-1.2	★★★★
Ninety One Global Gold Fund	11.8	13.6	18.4	29.0	-7.2	★★★★
Pyrford Global Total Return Fund	3.2	-2.5	8.5	4.0	1.2	★★★★★
UK						
Fidelity Special Situations Fund	1.2	-27.8	46.7	8.7	3.0	★★★★
FTF Franklin UK Equity Income Fund	7.5	-18.1	26.3	14.6	3.7	★★★★★
iShares Core FTSE 100 ETF	7.6	-18.5	21.9	16.0	5.3	★★★★
Liontrust UK Growth Fund	7.2	-14.0	22.6	13.2	3.2	★★★★★
Vanguard FTSE 250 ETF	0.8	-18.8	44.9	0.4	-7.9	★★★★★

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 31.3.18 to 31.3.23. 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

Not sure what to do next? Our financial advisers can help.

It feels that even the most straightforward of finances have been complicated by the current economic and political landscape. So, if you're still wondering what to do with your portfolio – even after reading this *Investment Outlook* – don't worry, our financial advisers are here to help.

Personal financial advice

Our financial advisers can really help cut through the noise when so much change is afoot and bring a fresh perspective to your finances. They will:

- Advise on the investment approach of your portfolio
- Help give you greater peace of mind
- Maximise your tax efficient investments

Financial advice will only be suggested if it's right for you. That's why a free, no-obligation, informal chat is offered in the first instance.

Important information – the value of investments can go down as well as up so you may get back less than you invest.

Simply call
0800 222 550

Or, visit
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