INVESTMENT OUTLOOK

Fidelity Personal Investing's market and investment view

In this issue:

- V for vaccine
- Lessons from the pandemic
- A year of rotations
- New fund picks for 2021

January
2021

"A terrible year in many ways, 2020 was strangely kind to investors. This year, policy should support growth to deliver another positive experience."

By Tom Stevenson, Investment Director, Personal Investing

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 an authorised financial adviser.

Asset classes	Current View	3 Month Change	
Shares	☑	▲	Supportive policy, economic growth, rising earnings and steady valuations point to another positive year for shares.
Bonds	⊟	▶	Developed world government bonds look like going nowhere this year so fixed income investors must look for yield in credit and emerging markets.
Property	⊟	▶	The underlying demand picture is poor in retail and offices and the future remains unclear. Income in a low yield world is the main attraction.
Commodities	☑	▶	A pick-up in global economic activity is starting to be reflected in higher prices for energy and metals. This looks like continuing in 2021.
Cash	☑	▶	The volatility of 2020 showed once again the merit in holding some cash in a portfolio. Flexibility makes up for the ongoing lack of yield.

Regions	Current View	3 Month Change	
US	☑	▲	The US is the most expensive market but its defensive qualities together with supportive monetary and fiscal policy are attractive.
UK	☑	▶	With more clarity on both Covid-19 and Brexit, the pariah status of the historically cheap UK market looks increasingly hard to justify.
Europe	☑	▶	The fall in earnings has pushed valuations above their recent cheap levels. Regaining the previous profit peak will take a couple of years.
Asia Pacific ex-Japan	☑	▲	A falling dollar, improving economic activity and earnings growth mean long-term strategic attractions are coupled with short-term reasons to buy.
Japan	☑	▶	The new administration looks like building on the Abe legacy. Valuations are not demanding, and Japan is exposed to global growth.

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.
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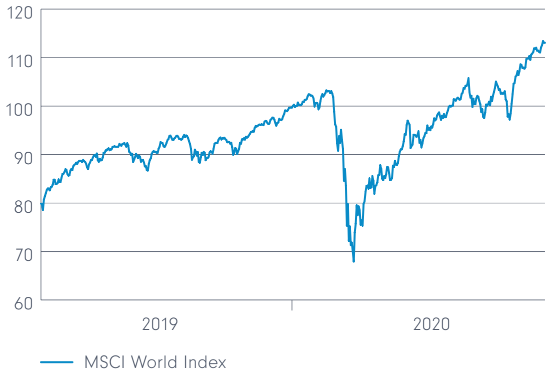
2020 in three charts

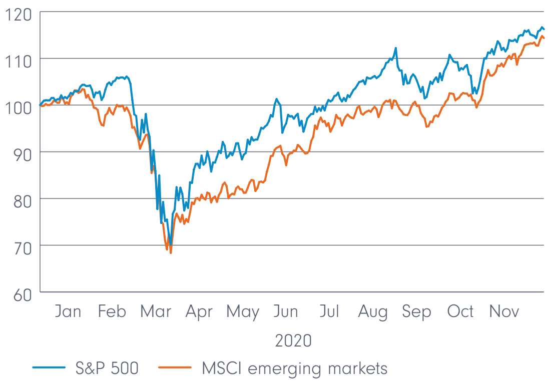
The year of the V – how the stock market surprised us all

One letter emerged from the alphabet soup of possible market outcomes in 2020. The shape of the likely recovery was seen as: a U (slow and flat); a W (erratic); even a K (diverging winners and losers). But, right from the outset, investors hoped it might be a V, with the sharp decline in February and March reversing into an equally quick bounce back. Almost a year on, that's how it looks. Unlike the credit crunch in 2008/9, it feels like the lasting damage won't be to consumer demand for goods and services, or the ability of businesses to supply them. Rather the tab will be picked up by governments and central banks in the form of costly fiscal and monetary stimulus. Markets are happy to see that as a problem for another day. We may find out in due course, via inflation, austerity or tax hikes, that this relaxed view is too complacent, but we live in hope.



Source: Refinitiv, as at 31.12.20. Rebased to 100 at 1.1.20

US and China lead the pack – but for different reasons

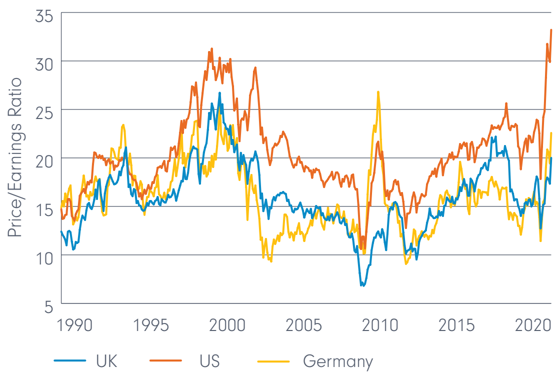


Source: Refinitiv, as at 18.12.20. Rebased to 100 at 18.12.19

This year has at times felt like the 'everything rally'. Some safe havens have struggled since March, but most places you are likely to have been invested in during 2020 have delivered a decent return to investors with the stomach to stay the course. Two of the best places to have been are the world's largest economies, the US and China, although they have got to the same place via different routes. China is benefiting from being first in and first out of the pandemic. Its no-questions clampdown was effective, and life is getting back to normal. The US has attracted investors, by contrast, with its defensive qualities. It is strong in the technology stocks that have been among the biggest beneficiaries of the new work-from-home, socially distanced world that we have got used to this year. Valuations may decide which of these two takes the lead in 2021.

2000 revisited – too far, too fast?

For most of the past 20 years, investors of a certain vintage have looked back on the late 1990s stock market bubble as a moment of collective madness. It has been the barometer of stock market excess against which everything else can be favourably compared. Until recently, that is. As the chart here shows, valuations in some markets (notably the US) have returned to levels last seen in the dot.com years. On some measures, prices have not been this frothy since 1929. The reassuring news is that high valuations like this are normal after a sharp fall in share prices. Rising company earnings quickly bring multiples down to more normal levels. The recent results season points to just that positive scenario. The big caveat is that earnings really do need to be delivered to justify current market levels. There is less room for error than there has been.



Source: Refinitiv, as at 31.12.20

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

Focus: this too shall pass

Many of us will have breathed a sigh of relief as Big Ben counted 2020 out and ushered in a hopefully brighter new year. It's been a challenging 12 months, but such periods always bring their fair share of lessons too. Here are some of the things I learned in 2020.

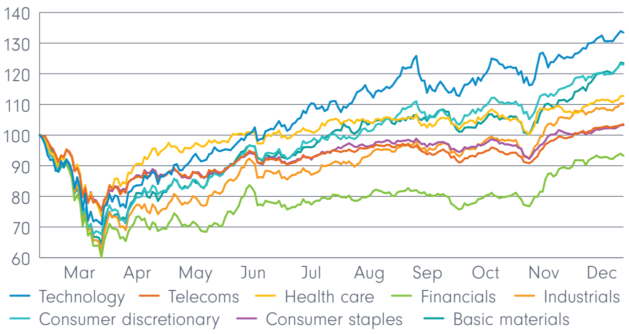
The first is that, while crises invariably present opportunities, you can't just wait for them to land in your lap. You have to do something to capitalise. As my old friend Jim Slater used to say to told-you-so, rear-view investors, 'the difference is, I did it'. While we tend to caution against market timing, sometimes you really do have to grit your teeth and take the plunge. March 2020 was one of those moments.

Having fallen 30% since the peak, there was every chance that the market would repeat its 50% drops in 2000 and 2008 but with each passing day the odds were stacking up in our favour. Sometimes, you just have to go for it.

The second lesson I learned last year is that markets and economies are not the same thing. They march to a different drumbeat. Stock markets look to the future while economies operate in the here and now and economic data measures the past. This is why the stock market traced out the V-shape it did even as the medical and economic data deteriorated. Widespread vaccination should allow a rapid return to previous levels of activity, with the gap bridged by massive fiscal and monetary stimulus. That will not come without a cost, of course, but investors are working on the basis that this will be a problem to face another day.

The third lesson I take from last year is that, as investors, we have to follow our instincts – sometimes the obvious decision is the right one. This is well illustrated by the sector chart here which shows how the divergence between the pandemic's winners and those industries hardest hit by Covid was evident immediately and persisted throughout the market's fall and subsequent rise. Investing in stay-at-home beneficiaries and avoiding travel, hospitality and retail stocks did not require any great insight. It was the consensus view. But it was the difference between a good year in the market and a bad one.

Technology leading the field



Source: Refinitiv, as at 18.12.20. Rebased to 100 at 19.2.20

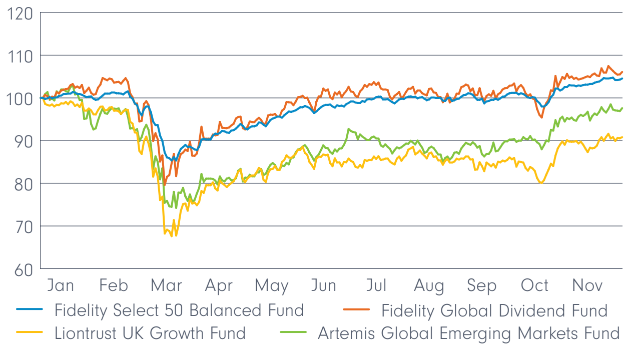
Past performance is not a reliable indicator of future returns. When investing in overseas markets, changes in currency exchange rates may affect the value of your investment. For full 5 year performance figures please see page 15.

Lesson number four. Be prepared – as the late Jimmy Goldsmith said: 'when you see a bandwagon, it's too late'. In November, the coincidence of the US Presidential election result, increased confidence about Brexit and the arrival of a vaccine provided the catalyst investors needed to rotate into the most beaten-up cyclicals that had borne the brunt of the sell-off in March. Some of the movements that month were remarkable. The likes of BA-owner IAG and cruise operator Carnival rose more than 50% in a few weeks.

The final lesson was the realisation that, while things tend to be less good than we hope and less bad than we fear, sometimes they really do change completely. The era of market-focused globalisation that grew out of the chaos of the 1970s and prevailed for 40 years is drawing to a close. The consequences of this will not be altogether positive for the owners of capital (such as, I suspect, everyone reading this) and we will all need to plan carefully for the headwinds ahead, including but not restricted to higher taxes.

Fund picks: surviving an extraordinary year

Defensive funds outperformed in 2020



Source: Morningstar, 31.12.20, bid to bid with income reinvested in GBP terms. Excludes initial charge. Figures rebased to 100 as at 1.1.20

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At this time of year, I turn to our fund picks for the previous 12 months, usually with some trepidation. 2019 was an easy year to report on; 2020 was always going to be a bigger challenge. However, with some relief I can report that the four funds highlighted a year ago have navigated a trying period in the market with acceptable resilience. We were right to be cautious at the end of a strong year in the markets in 2019 and to position ourselves defensively for 2020, albeit in blissful ignorance of what actually lay ahead.

The two most defensive funds, both from Fidelity, the ***Select 50 Balanced*** and ***Global Dividend***, served up modest gains for the year as a whole. All credit to both managers. They pretty much made up for the failure of both ***Liontrust UK Growth*** and ***Artemis Global Emerging Markets*** to fully retrieve early losses by the end of the year.

Looking into 2021, I expect three themes to matter. Sustainability has proved to be an important distinguishing characteristic of the best-performing funds in 2020 and this trend looks likely to continue this year. Three of the five funds I am highlighting today are explicitly focused on environmental, social and governance factors.

The ***Brown Advisory US Sustainable Growth Fund*** looks for businesses with a sustainable business advantage. It is concentrated and has a strong valuation discipline. The ***Stewart Investors Asia Pacific Leaders Sustainability Fund*** has a similar focus, looking for 'socially useful' businesses in the Far East. It manages its emerging market risk with a large and mid-cap bias. The third fund in this category combines sustainability with my second theme, an income focus. ***Foresight UK Infrastructure Fund*** aims for a 5% income stream (not guaranteed), delivered via investments in real assets in renewable energy and other infrastructure.

The third theme is what I hope, finally, will be an end to the UK discount caused by the cyclical bias of the FTSE 100 and the Brexit situation. The UK is almost a pariah market today and this sets my contrarian antennae twitching. I have chosen two UK funds, both from Fidelity, to hedge my bets on the unanswered growth or value question.

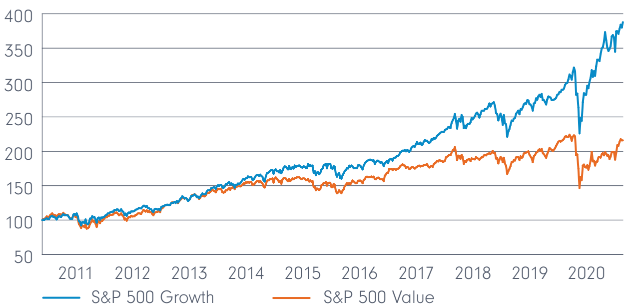
Fidelity Special Situations is the value play, focused on unloved companies entering a period of positive change. ***Fidelity UK Select*** is the growth option that will perform better if strong brands and robust balance sheets continue to garner support.

Key questions as we move into 2021

This divergence in performance between the **growth and value styles** was one of the biggest determinants of investment returns in 2020. As the chart shows, the jaws between the two have widened yet further in the past year as investors have sheltered in companies with a track record of delivering earnings through thick and thin. If you had invested £100 in the S&P 500 growth index a year ago, it would be worth £131 at the time of writing, compared with £97 for the same amount invested in the value index. Over ten years, shown here, the returns from growth have been almost double those of value.

For value to outperform growth in 2021, we will need to see a significant pick-up in economic activity on the back of an effective vaccine, with consequent increases in interest rates and bond yields. These are all possible, even probable, but it is worth remembering that some value sectors, such as banks and oil & gas, are cheap for a reason. They face long-term headwinds and, short-term, there is still much that could go wrong with the 'back to normal' thesis. A balanced approach between growth and value styles continues to make sense.

Another year of outperformance for growth investing



Source: Refinitiv, 18.12.20, rebased to 100 at 18.12.10

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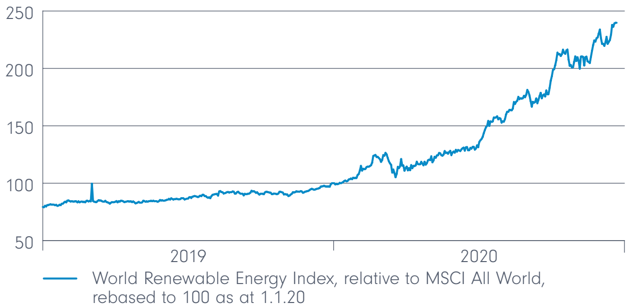
While I have backed the sustainability theme with my recommendations this year, I recognise that there is a danger that investors become excessively focused on what is, after all, just a proxy for good and prudent management in a changing world. There is a risk that a kind of **sustainability bubble** starts to form in 2021 and I will be watching this closely.

The chart here of the performance of renewable energy stocks compared with the overall global stock market is instructive. When markets start to head up the page in this way, it is wise to tread carefully but trends like this can persist for a long time, especially when they are backed up by sound underlying fundamentals.

Investors focus on sustainability



Source: Refinitiv, as at 31.12.20

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As we move into 2021 there are a few issues that we know will be important but the outcome of which remain hard to predict. The first is whether this year will start to see a **return of inflation**. The unprecedented scale of monetary and fiscal stimulus this year argues for higher prices but in the short-term there is no evidence of their imminent arrival. Longer-term it feels like the path of least resistance for politicians grappling with levels of debt that we have never experienced in peacetime. Developed countries that print their own currencies won't default and cannot feasibly impose the austerity that would be required to pay the debts off. That leaves only one possible solution – inflating them away. Inflation is a killer for long-term investors.

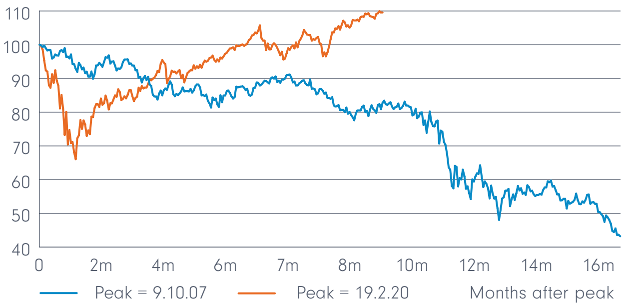
Actually, there is one other partial solution to the debt question. While **tax hikes** may not be a realistic solution to paying down the national debt, and arguably would be counter-productive because they would stifle the economic growth that is the best way to dig us out of this hole, they are undoubtedly politically expedient. I view the March budget with some foreboding and would urge investors to do what they can to protect themselves from what might be a truly un-Conservative assault on our pensions and capital gains.

My conclusion, as ever, to the lack of clarity that all investors face is the supreme importance of diversification. Avoid home bias. Don't put all your eggs in one basket. Do what you can to make sure you survive to fight another day, whatever Mr Market throws your way.

Asset classes

SHARES

History doesn't always repeat itself



Source: Refinitiv, as at 31.12.20

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

Even after the strong end to the year on the back of vaccine hopes, shares continue to look like the asset class of choice for investors in 2021. What will drive this continuation of the post-March recovery? The first support for shares is policy, with monetary and fiscal support being aided by easy borrowing conditions and a weaker dollar. Governments have lost their appetite for austerity, banks are in much better shape and the recent $900bn stimulus package in the US shows that the will remains to keep backing the recovery.

Second, the relative valuation of shares versus their principal rival for investors' attention, bonds, continues to be compelling. Getting back to historic norms implies 4,140 for the S&P 500, according to Credit Suisse.

Third, the inability of bonds to provide uncorrelated returns to shares when yields are at or below zero means that the future of the traditional 60:40 fund (60% shares, 40% bonds) is in doubt. Bonds increasingly look like a non-diversifying, return-less risk, exactly the opposite of what they are supposed to be. A marginal but persistent shift in assets from bonds to equities will provide a tailwind for shares.

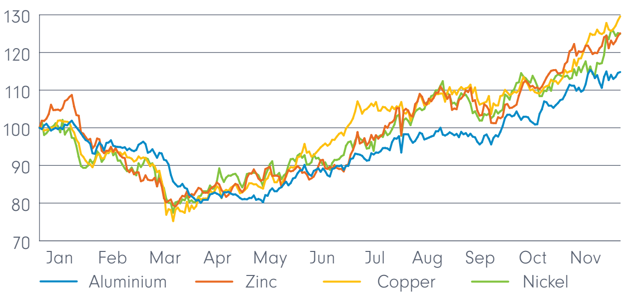
Naturally, there are risks to this scenario. Further lockdowns and a delay to the economic recovery is the most obvious. But, overall, the risks of a melt-up look greater than those of a melt-down. The lack of an alternative and the fear of missing out combine to make the case for a decent but not a shoot-the-lights-out year for shares.

Within the equity market, as the regional reports on pages 8-11 argue, the US will probably not be the leader next year but should continue to feature in any balanced portfolio. Companies that score highly on environmental, social and governance factors will continue to be favoured over those that do not. There will be a better balance between the value and growth styles as the economy picks up speed, but investors will continue to be reassured by the long-term earnings potential of defensive sectors like technology and healthcare.

Select 50 fund picks: *the global equity funds on our preferred fund list offer an excellent spread of growth and value styles and access to sustainable themes and income. At the growth end of the spectrum, we like the* ***Brown Advisory US Sustainable Growth Fund*** *and the* ***Rathbone Global Opportunities Fund****. Income investors are well-served by the* ***Fidelity Global Dividend Fund****. Before you invest in a fund, please ensure you have read Doing Business with Fidelity and the Key Information Document (KID) relevant to your chosen fund.*

COMMODITIES

The stars are aligned for commodities



Source: Refinitiv, as at 31.12.20

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Commodities have been the Cinderella asset class during the past decade, but the pandemic and the measures taken to combat it could be the catalyst for a structural shift in thinking about real assets, especially metals. We could be on the cusp of a renewed bull market.

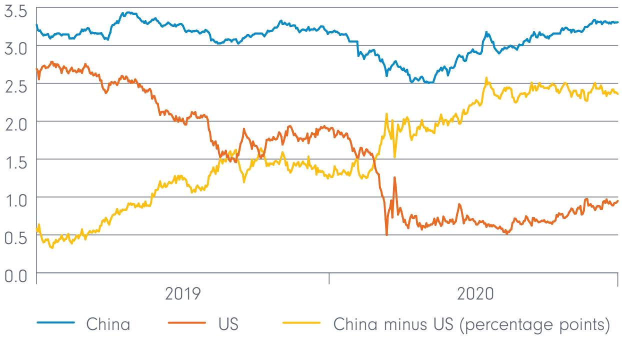
Key drivers of this include severe underinvestment in production following ten years of poor returns. The pandemic intensified the reluctance to invest, leaving the industry ill-equipped to meet rising demand in a vaccine-led recovery. Second, government policy has clearly shifted towards addressing social and environmental priorities. China's five-year plans, Europe's Green Deal and the US's ongoing stimulus all argue for increased demand for commodities in the years ahead. Finally, in an environment of higher government spending, inflation risks rise. Commodities offer investors one of the best hedges against rising prices, just as they did in earlier inflationary periods like the 1970s.

Back in the early 2000s, commodities were boosted by a combination of investment in the BRIC economies and debt-fuelled consumption. The drivers may be different this time (green capital expenditure and redistributive policies towards groups more likely to spend extra income) but the outcome could be similar.

Gold has come off the boil recently as risk appetite has increased, but inflation concerns make a good case for some exposure to precious metals. Goldman Sachs maintains a $2,300 target. Silver benefits both from safe-haven demand but also industrial uses.

BONDS

Heading east in the search for yield



Source: Refinitiv, as at 31.12.20

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Government bond yields fell sharply at the start of the pandemic as central banks slashed interest rates and launched new quantitative easing programs. That resulted in another year when investors benefited from higher bond prices as well as higher stock markets.

As the economy continues to recover next year on the back of widespread vaccinations, that happy combination could come to an end. It is likely that central banks will be encouraged to keep short rates low, but expectations of growth and inflation should push the yields on longer maturity bonds higher. At the same time, there is no evidence that central banks have any appetite to move further into negative territory or to go below zero if they have not already done so.

So, not all bonds will be affected to the same extent next year, but at no point along the curve are developed country bond yields likely to be any lower at the end of 2021 than they are today. Because bond prices and yields move in opposite directions that implies that total returns will not exceed the already low income offered by government bonds. In some cases that total return may be negative.

This is not the same as saying that investors should avoid bonds altogether. Corporate bonds and some emerging market sovereign bonds will continue to look attractive to yield-hungry investors. As the chart here shows, the difference in yield offered by Chinese government bonds and that on US Treasuries is wide and has been getting wider.

Back in 2008, the creation of new money by the Federal Reserve had no impact on inflation because banks re-deposited the cash at the Fed almost as fast as it was created. Today, the even bigger money creation is likely to have a more inflationary impact. The growth in money supply is at levels not seen since the 1960s and with fiscal support adding fuel to the fire, the all-important velocity of money around the economy could soon start to pick up.

Fund outflows could add to the upward pressure on bond yields as investors start to question the purpose of bonds in their portfolios. If they offer, as increasingly seems to be the case, a return-less risk rather than a risk-free return then, at the margin, investors may prefer to shift their bond holdings into equities or alternative sources of income such as real estate or infrastructure investments.

Important information: There is a risk that the issuers of bonds may not be able to repay the money they have borrowed or make interest payments. When interest rates rise, bonds may fall in value. Rising interest rates may cause the value of your investment to fall.

PROPERTY

The past year has been challenging for the real estate sector, with attacks on property values on multiple fronts. The most obvious area of concern is retail where the pandemic has made a bad situation worse as lockdowns have built on an existing threat from online shopping. Retailers are responding by cutting back the size of their estates. What future can be found for the secondary sites that are first for the chop is uncertain.

Also hard hit has been the hospitality sector, with revenues at restaurants and cafes in Europe estimated to have halved in 2020. In most cases that makes a low margin business unviable. So far, the full impact of this calamity has not been felt thanks to government support but in due course it will.

For offices, too, the landscape has changed dramatically in 2020, although the trend towards working from home was already underway. The jury is out on the future for offices. It certainly won't be the old model of battery-hen style floors of overcrowded desks, with more of a focus on collaboration areas and meeting rooms. What is certain is that we will need less space in future than we did.

That's the bad news. The good news is that in an income-starved world, where real yields are likely to be pegged as low as possible for as long as possible, property has a role to play. Many investors will prefer to earn 3.5% investing in a German office building than to lend to the Chinese government for the same return.

For contrarians, the carnage on the High Street will in due course offer opportunities to brave investors. While they wait, there are parts of the market where demand remains strong – data centres, healthcare facilities and mixed-use properties will continue to offer a sustainable source of high-quality income to long-term investors.

Important information: Funds in the property sector invest in property and land. These can be difficult to sell so you may not be able to sell/cash in this investment when you want to. There may be a delay in acting on your instructions to sell your investment. The value of property is generally a matter of a valuer's opinion rather than fact.

Stock markets around the world

UK

The UK market's increasing pariah status

Source: Refinitiv, as at 31.12.20

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

The time to get interested in any investment is when backing it looks most eccentric. A positive view on the UK seems stranger today than perhaps at any time since I was doing my homework by candlelight in the early 1970s. The UK has become a pariah market, unloved and too cheap by far.

The case for investing in our domestic market has a number of elements. The first is that the UK is likely to be one of the biggest beneficiaries of a vaccine, having been one of the hardest hit by the pandemic. The UK economy is heavily weighted to services, so it is perhaps unsurprising that Covid restrictions have led to the biggest fall in GDP of any European country. We are exposed to the sectors that should bounce back the most (airlines, media, leisure, aerospace, energy) and underweight those areas that have been beneficiaries of lockdown (tech, online retail). The UK market is very cyclical.

The second strand in the bull case is valuation. The UK market is cheaper relative to global shares than it has been in at least 25 years. Since 2016 it has gone from being slightly more expensive versus the MSCI World index to trading at a significant discount. Credit Suisse creates a composite valuation model that includes factors such as the currency, government bond yields and economic data. This suggests that UK shares are 31% undervalued today.

The divergence between valuations and the economic reality is wider here than anywhere. For example, the gap between company earnings revisions and the level of the stock market is wider than for many years. Although some of the underperformance can be levelled at the UK being in the wrong sectors, UK shares have underperformed their international counterparts within sectors too. This suggests that there is a general UK Brexit discount at work.

As we enter 2021, the Brexit situation has finally been resolved but it is worth noting that investors had already moved to price in either a hard Brexit or a no-deal exit long before the end of the year. The difference in economic terms was anyway marginal. Now this uncertainty is out of the way, we can focus on some of the UK's advantages: political stability (no election for four years); an independent and flexible central bank; relatively manageable government debt. Markets tend to over-discount political uncertainty and more clarity often leads to a rally.

Finally, fund flows have been excessively negative in recent years. Since 2016, the UK has experienced the biggest outflows of any region.

One potential headwind for the UK is the currency. Traditionally, the stock market and the pound move in opposite directions due to the international nature of the FTSE 100. Sterling strength makes exports less competitive and overseas earnings worth less on translation back to the UK. However, it is possible that this year both the pound and the market could move in the same, positive direction given the low starting point for both.

We often caution against home bias, but this year it does make sense to take a contrarian view of the UK and accept a bigger weighting than normal to our deeply out of favour market.

Select 50 fund picks: *Our picks this year include two UK funds, both from Fidelity, to cover off the ongoing uncertainty about whether growth or value will be the predominant style. If cyclical value takes the lead, the* ***Fidelity Special Situations Fund*** *should flourish; in a more growth-focused market we like the look of the* ***Fidelity UK Select Fund****. Before you invest in a fund, please ensure you have read Doing Business with Fidelity and the Key Information Document (KID) relevant to your chosen fund.*

US

A good year for many, exceptional for some

Source: Refinitiv, as at 30.12.20

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Much of the uncertainty that clouded the outlook for the US market disappeared in the final quarter of 2020. The US election was closely fought, and the shape of government has taken two months to be finalised by the recent Georgia senate contest. But the outline of the next four years is now clear, and it looks like a more predictable, more internationally engaged administration than we have had for the past four.

The second major uncertainty is also heading in the right direction, thanks to the emergence at the end of last year of viable Covid-19 vaccines. This is arguably the more important driver of markets in the next year given the constraints that the US political system will place on the incoming Biden White House. The likely picture for 2021 includes: widespread vaccinations; continuing division in Washington but less policy uncertainty; further V-shaped economic recovery; sharply rebounding S&P 500 profits; persistently low interest rates but only modestly rising bond yields.

This is essentially what the US stock market has anticipated during the rally of nearly 60% from the March low (following a 34% plunge in the first quarter). But it is worth pointing out that the gains have not been uniform. Big tech has dominated the US market, with the five biggest companies accounting for more than a fifth of the value of the S&P 500. These stocks have returned nearly 50%, although dwarfed by Tesla (in the chart), while the other 495 stocks in the benchmark have barely made any progress at all. The US stock market may look high, but most shares still have a lot of catching up to do. Indeed, the median S&P 500 stock remains 10% below its 52-week high.

Goldman Sachs – a bullish commentator, it should be noted – is now looking for the S&P 500 to reach 4,300 by the end of 2021 and 4,600 by the end of next year. Those would be gains of respectively about 15% and less than 10%. Good gains, but not excessive in the context of recent years. Since 1982, the US market has risen between 10% and 20% about a quarter of the time.

In part, these gains represent a rise in valuations, but only a relatively modest one, to 22 times earnings from 20 today. The more important factor is continuing growth in earnings following a much better than expected third quarter when profits were expected to fall by 21% but in fact declined by a much more modest 8%. Economic growth of more than 5% in 2021 should underpin further earnings advances, as should a weakening in the US dollar as investors are less concerned about sheltering in the safety of the US currency.

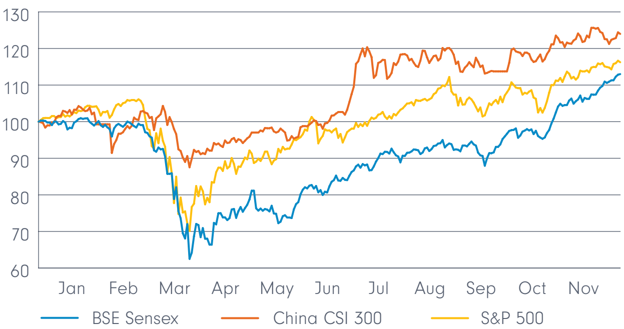
One perceived threat is a rotation away from the defensive growth stocks that have fuelled US outperformance. But this may have been exaggerated. If we assume that the FAANG leaders move sideways next year and the other 495 stocks grow by the historic average of 12% then the S&P 500 still ends up above 4,000. Assume a 5% gain for the tech stocks and 20% for the others in a vaccine-led rally and you reach Goldman's 4,300 target. Yes, it is a punchy target, but not inconceivable.

So, while there are probably other markets around the world with a better risk/reward balance today, the US still has plenty going for it and is too big to ignore in a well-diversified portfolio. The best approach to investing in the US should probably be to balance exposure to the growth shares and the potential cyclical recovery stocks. Also, it is worth tilting a portfolio towards companies focused on environmental, social and governance factors (ESG). Sustainability is likely to be an important driver in a post-Trump environment.

Select 50 fund picks: *A barbell approach that mixes cyclical value and defensive growth might include a combination of* ***JPM US Equity Income Fund*** *and* ***Schroders US Mid Cap Fund*** *on the value side with* ***Brown Advisory US Sustainable Growth Fund*** *and* ***JPM US Select Fund*** *for the growth. The Brown fund also plays to the sustainability theme and is one of our fund picks for the year. Before you invest in a fund, please ensure you have read Doing Business with Fidelity and the Key Information Document (KID) relevant to your chosen fund.*

ASIA AND EMERGING MARKETS

First in, first out of the pandemic



Source: Refinitiv, 18.12.20. Rebased to 100 as at 18.12.19

Past performance is not a reliable indicator of future returns. Overseas investments will be affected by movements in currency exchange rates. Investments in emerging markets can be more volatile than other more developed markets. For full 5 year performance figures please see page 15.

It is wrong to generalise about Asia and emerging markets, as Goldman Sachs discovered when it launched its BRIC marketing push in the early 2000s. Some of the countries captured by this broad category are consumption-led while others are essentially exporters of commodities. There are both chaotic democracies and authoritarian one-party states in the mix. Different countries are at very different stages of their economic development.

What they do all benefit from as we head into 2021, however, is the widespread belief in the investment community that they will have a good year, most likely outperforming the US which has led the pack for so long. Looking at the chart here which compares the US, India and China, it is clear that the biggest countries in this investment class have kept up with the market leader since the turn of the market in March.

There are a few different strands to the case for emerging markets this year. The first is that the underlying, secular growth rate in many emerging economies, particularly in Asia but also in South America and Africa too, is much faster than that in Europe and North America. The growth of the middle class, and the size of the populations in these regions, means changing consumer preferences and purchasing power provide investors with a tailwind.

That's a long-term story that will be familiar to all investors. In the shorter-term that underlying advantage is likely to be boosted by a weakening dollar thanks to persistently low interest rates and a sizeable fiscal deficit in the world's biggest economy. Over the past 20 years, the average gain for emerging market shares when the dollar has weakened by at least 5% has been 19%. There are many reasons for this but the reduction in the burden of dollar-denominated debts and a boost to commodity prices are among the more important.

A key difference between the US and emerging markets, including Asia, is the valuation of stock markets. While multiples have risen, in China especially, thanks to the rise in importance of the highly-rated technology sector, this is justified by the more sustainable earnings of these types of companies compared to the old economy businesses that used to dominate this investment class. And compared to developed markets, emerging market shares are cheap – they trade at a discount in terms of price to book value of something like 33%, compared to a historical average of 15%.

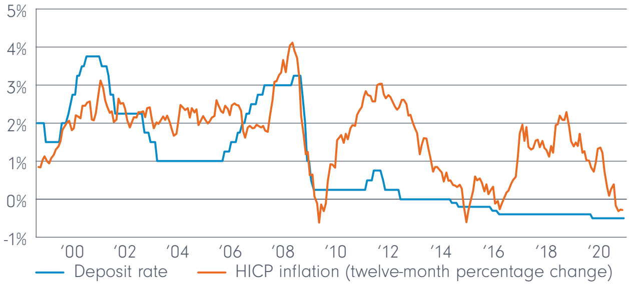
In terms of the pandemic, North Asia is in much better shape than the rest of the world. It was first in and first out of Covid-19. Also, because the investment class is so varied, a problem in one region is less likely to inflict damage on a diversified emerging market portfolio.

Finally, emerging markets are well-placed to benefit from a general uptick in economic activity. This is particularly the case in Latin America, eastern Europe and Africa where the proportion of financials, commodities and other cyclical sectors is notably high.

Select 50 fund picks: *Last year's emerging market fund pick, the* ***Artemis Global Emerging Markets Fund****, picked up towards the end of the year to recover almost all its losses from early in the year. We stick with this 'growth at a reasonable price' fund. As the emphasis on sustainability increases, we also highlight one of this year's picks, the* ***Stewart Investors Asia Pacific Leaders Sustainability Fund****, which focuses on 'socially useful' large and mid-cap companies. Before you invest in a fund, please ensure you have read Doing Business with Fidelity and the Key Information Document (KID) relevant to your chosen fund.*

EUROPE

Even with negative rates, inflation is subdued



Source: Refinitiv, as at 31.12.20

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

As in the US, Europe's outlook hinges on the speed with which vaccinations are rolled out in a region that has suffered heavily during the pandemic. The good news is that as lockdowns ease and more people get their jabs, there should be a rapid acceleration in growth and a consequent sharp rise in company earnings.

The better growth outlook will be boosted also by continuing policy support from both the ECB and individual country governments. The EU Recovery Fund is just starting to be spent. There is likely to be more quantitative easing and no rate hikes are expected for several years. The combination of easy policy and accelerating growth is particularly favourable for shares and should lead to double digit returns next year.

Although the 2020 numbers will probably be marked down further in light of the year end shutdowns, the bounce in 2021 should be even greater. Earnings are forecast to rise by as much as 50% in 2021 and 12% the year after, although this means that the 2019 peak in earnings is only regained by the end of 2022. A two-year recovery from trough to previous peak is typical.

Given the steepness of the earnings decline this year it is not surprising that the valuation of the market looks a bit demanding by the standards of recent years. This means that earnings will have to do the heavy lifting as far as the market level is concerned. Again, this is typical of the growth phase of the stock market cycle.

In terms of style, cyclical areas of the market like financials, commodities, energy and the automotive sector should do well. As in other markets, growth shares are now rated much more highly than value stocks and this gap should begin to narrow as the recovery takes hold.

Select 50 fund pick: *A new fund in the Europe category of the Select 50 is the* ***Comgest Growth Europe ex UK Fund****. It has an unashamed focus on high-quality growth stocks, holding shares for the long run. Before you invest in a fund, please ensure you have read Doing Business with Fidelity and the Key Information Document (KID).*

JAPAN

Unemployment – rising but still low

Source: Refinitiv, as at 31.12.20

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

Japanese shares picked up the pace towards the end of 2020 after an indifferent start to the year. This reflects Japan's exposure to global growth and rising expectations of a cyclical rebound in 2021. Japanese small caps, in particular, delivered strong returns with the Mothers index outperforming even America's Nasdaq.

The next year should be reasonably positive for investors in Japan for a handful of reasons. First, global growth is pencilled in at around 6% next year. That is a good backdrop for Japan's exporters and overseas earners.

Second, the new Suga administration is building on the positive reforms put in place by former Prime Minister Shinzo Abe. The new government is also pursuing market-friendly fiscal and monetary policies and an ambitious reform agenda, such as digital transformation of the public sector, carbon neutrality by 2050 and other productivity improvements. As in other markets, corporate earnings are forecast to bounce strongly in 2021 – by nearly 60% next year and by another 9% in 2022. Despite that, Japanese shares are among the cheapest in the world, trading on about 15 times earnings and with shares worth barely more than their book value. By contrast, US shares are valued at more than 20 times earnings and trade at around four times book value.

Finally, Japan remains deeply out of favour. Overseas investors remain underweight Japanese shares so any pick-up in activity and earnings should attract marginal buyers.

Select 50 fund picks: *We have a range of different styles covered by the three Japanese funds on the Select 50. Investors anticipating a cyclical, value-focused rally might prefer the* ***Man GLG Japan CoreAlpha Fund****. Less cyclical is the* ***Lindsell Train Japanese Equity Fund****. We also like 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).*

The Select 50 – Our experts' favourite funds

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

STANDARDISED PERFORMANCE DATA (%) OVER THE PAST FIVE YEARS

% (as at 31st December)	2015-16	2016-7	2017-18	2018-19	2019-20	Morningstar Fund Rating
ASIA AND EMERGING MARKETS						
Artemis Global Emerging Markets	37.7	26.0	-7.7	14.0	-0.4	✪✪✪
Fidelity Funds – Asian Special Situations	28.7	30.2	-8.7	17.1	18.5	✪✪✪✪
Maple-Brown Abbott Asia Pacific ex Japan	28.2	20.7	-10.3	8.3	0.9	✪
Matthews Asia Pacific	20.0	27.1	-5.7	7.9	26.0	✪✪✪✪
Merian Asia Pacific	32.1	38.5	-12.6	13.2	22.0	✪✪✪✪
Stewart Investors Asia Pacific Leaders	19.6	13.5	5.4	3.8	24.2	✪✪✪✪
BONDS						
ASI Global Inflation-linked Bond	9.7	1.8	-1.7	6.6	8.6	✪✪✪
Colchester Global Bond	-	-	-	-	7.2	
Fidelity MoneyBuilder Income	8.8	4.9	-2.4	9.6	7.8	✪✪✪
Fidelity Strategic Bond†	5.7	4.7	-3.5	10.2	7.8	✪✪✪✪
Invesco High Yield	7.9	9.4	-4.5	14.9	0.4	✪✪✪
iShares UK Gilts All Stocks Index	9.8	1.8	0.3	6.7	8.4	✪✪✪
JPM Global High Yield Bond	13.7	6.5	-3.7	12.8	4.3	
Jupiter Strategic Bond	7.4	4.4	-1.0	8.3	6.2	✪✪✪✪✪
M&G Corporate Bond	8.6	5.3	-2.5	11.3	6.0	✪✪✪
M&G Optimal Income	8.1	5.8	-3.3	9.0	3.0	✪✪✪✪

† The investment policy of Fidelity Strategic Bond Fund means it can be more than 35% invested in government and public securities. These can be issued or guaranteed by other countries and governments. For a full list please refer to the fund's prospectus.

The Select 50 is liable to be changed between publication dates for the Investment Outlook. For the most up-to-date list please visit www.fidelity.co.uk/select50

% (as at 31st December)	2015-16	2016-7	2017-18	2018-19	2019-20	Morningstar Fund Rating
EUROPE						
Barings Europe Select	20.7	23.1	-10.3	20.7	13.2	✪✪✪✪
BlackRock Continental European	13.9	18.9	-10.0	30.9	30.5	✪✪✪✪✪
Comgest Growth Europe ex UK	-	17.8	-1.0	28.3	20.0	✪✪✪✪✪
Fidelity Funds – European Growth	24.5	11.9	-7.9	17.7	-2.7	✪✪✪
JOHCM European Select Values	23.1	14.6	-13.3	1.8	10.2	✪✪✪
Robeco QI Conservative Equities	12.5	13.4	-6.1	16.8	-0.2	✪✪✪
GLOBAL						
BNY Mellon Long-Term Global Equity	26.1	13.8	2.7	24.8	14.5	✪✪✪
Fidelity Global Dividend	22.6	6.6	2.2	20.5	6.0	✪✪✪✪✪
Fidelity Global Special Situations	27.9	16.9	-6.5	22.3	17.8	✪✪✪✪
Invesco Global Equity Income	22.8	12.7	-9.2	20.0	1.3	✪✪
Rathbone Global Opportunities	16.8	20.1	-0.5	26.3	31.6	✪✪✪✪✪
JAPAN						
Baillie Gifford Japanese	33.9	26.6	-12.6	18.5	18.6	✪✪✪✪✪
Lindsell Train Japanese Equity	26.4	24.7	0.7	16.1	3.6	✪✪✪✪
Man GLG Japan CoreAlpha	32.4	10.8	-9.5	7.5	-14.0	✪
NORTH AMERICA						
Brown Advisory US Sustainable Growth **	-	-	11.1	30.1	36.9	✪✪✪✪✪
JPM US Equity Income	36.8	7.0	-0.4	22.9	-0.6	✪✪✪✪✪
JPM US Select	32.6	9.7	-1.7	28.5	21.3	✪✪✪✪
Merian North American	36.8	12.4	-3.8	21.1	15.4	✪✪✪✪
Schroder US Mid Cap	42.1	5.8	-6.7	25.7	3.5	✪✪✪

** Class B Income share class performance

STANDARDISED PERFORMANCE DATA (%) OVER THE PAST FIVE YEARS

% (as at 31st December)	2015-16	2016-7	2017-18	2018-19	2019-20	Morningstar Fund Rating
UK						
Fidelity Special Situations	14.4	15.4	-13.5	21.7	-12.0	★★★
Fidelity UK Select	8.8	15.7	-9.6	25.0	-6.0	★★★★★
Franklin UK Equity Income	15.3	12.0	-8.9	23.7	-11.4	★★★★★
J O Hambro UK Dynamic	21.2	16.2	-10.2	21.0	-17.6	★★
J O Hambro UK Equity Income	16.8	18.2	-13.1	20.2	-15.6	★★
Lazard UK Omega	16.7	13.7	-14.1	16.9	-5.5	★★★
Liontrust UK Growth	18.1	14.2	-6.1	19.9	-8.3	★★★★
Majedie UK Equity	21.3	6.2	-9.6	14.3	-6.9	★★★
Threadneedle UK Mid 250	-2.9	27.6	-19.2	28.8	0.7	★★★
ALTERNATIVES						
Foresight UK Infrastructure Income	-	-	6.9	19.5	-0.9	
Invesco Global Targeted Returns	3.6	1.3	-3.8	3.4	-1.4	
iShares Global Property Securities Equity Index	23.8	1.6	0.1	17.7	-11.8	★★★
Ninety One Global Gold	84.1	0.0	-0.6	37.1	24.2	★★★★

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

Source: Morningstar as from 31.12.15 to 31.12.20. Basis: bid to bid with income reinvested in GBP. Excludes initial charge. The fund's primary share class according to the IA is shown. For the latest yields please call 0800 41 41 61 or visit fidelity.co.uk

Market data

Please be aware that past performance is not a reliable indicator of what might happen in the future. When investing in overseas markets, changes in currency exchange rates may affect the value of your investment. Investments in small and emerging markets can be more volatile than those in other overseas markets.

INVESTMENT VALUATION AT A GLANCE

	Price-earnings ratio 2021E	Dividend yield 2020E
Shares		%
US	22.9	1.5
Europe	16.8	2.7
UK	14.6	3.5
Japan	18.0	2.1
Asia Pac ex Japan	16.4	2.1
Emerging Market Asia	16.0	1.8
Latin America	13.3	2.2
Central East Europe, Middle East & Africa	11.3	3.2

	Redemption Yield
Bonds	%
ML Global High Yield	4.8
German 10-Year Bunds	-0.5
ML Global Corporates	1.4
UK 10-Year Gilts	0.6
US 10-Year Treasuries	0.9

INVESTMENT PERFORMANCE AT A GLANCE

% (as at 31st December)	3 m	2015-16	2016-17	2017-18	2018-19	2019-20
Shares						
S&P 500	12.2	12.0	21.8	-4.4	31.5	18.4
Nasdaq	8.6	17.5	16.8	8.2	33.9	26.1
FTSE All Share	12.6	16.8	13.1	-9.5	19.2	-9.8
FTSE 100	10.9	19.1	12.0	-8.7	17.3	-11.6
Euro STOXX	11.4	4.7	10.1	-11.3	29.3	-2.6
China CSI 300	4.3	-11.6	21.9	-25.6	34.6	29.4
MSCI Emerging Markets	19.8	11.6	37.8	-14.2	18.9	18.7
Nikkei 225	18.5	2.4	21.3	-10.3	20.7	18.3
BSE Sensex	15.7	0.9	28.4	5.8	15.0	16.0
MSCI World	14.1	8.2	23.1	-8.2	28.4	16.5
Technology	9.5	10.3	38.7	-7.5	42.7	46.9
Telecoms	10.3	1.7	5.0	-14.2	11.6	6.3
Health Care	6.9	-7.8	20.6	-1.9	22.8	16.7
Financials	16.8	3.8	22.3	-15.6	20.6	-5.7
Consumer Discretionary	11.6	0.9	23.8	-13.9	23.2	25.8
Consumer Staples	6.4	0.2	21.6	-18.1	18.3	3.9
Industrials	12.4	9.1	26.8	-17.6	27.8	12.2
Basic Materials	17.2	17.9	27.8	-20.6	15.1	20.3
World Renewable Energy Index	15.4	-15.7	11.8	-9.9	58.6	179.1
S&P Growth	5.1	5.8	25.3	-2.7	30.7	31.4
S&P Value	8.7	14.5	12.9	-12.3	29.6	-1.6
Tesla	61.2	-10.4	44.2	8.1	25.4	727.4
Bonds						
US 10-Year Treasuries	-1.9	0.9	2.1	-0.1	9.5	12.6
UK 10-Year Gilts	1.1	16.9	3.3	0.5	11.5	13.0
German 10-Year Bunds	0.4	5.3	-0.4	3.3	5.0	4.0
ML Global High Yield	7.5	14.8	10.2	-3.3	13.7	8.0
ML Global Corporate	4.2	4.3	9.3	-3.5	11.4	10.3
Commodities						
Crude Oil (Brent)	26.6	51.1	15.1	-20.2	24.8	-21.8
Gold Spot	-0.4	7.8	12.8	-2.8	18.0	21.0
Aluminium	11.3	12.9	34.4	-18.4	-3.6	10.2
Zinc	15.3	57.4	32.3	-22.9	-10.9	19.7
Copper	17.9	16.2	32.6	-17.7	3.7	25.2
Nickel	11.4	14.7	22.1	-13.2	33.7	16.0

Source: Refinitiv, 30.9.20. in local currency terms. Valuations: Source Citigroup Global Equity Strategist – Citi Research, MSCI, Worldscope, FactSet Consensus estimates as at 4.9.20. Bond Yields: Source Refinitiv, as at 30.9.20

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Source: Fidelity as at 30.9.20

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