INVESTMENT OUTLOOK

Fidelity Personal Investing's market and investment view

In this issue:

- 2026 fund picks
- Turbulence ahead?
- Stay invested, be diversified

January 2026

ISAs | Pensions | Funds | Shares | Advice

Fidelity INTERNATIONAL

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Important information – Investment values (and income from investments) can go down as well as up, so you may get back less than you invest. 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. Property and land can be difficult to sell so an investor may not be able to sell this investment when they want to. The value of property is generally a matter of a valuer's opinion rather than fact. Reference to specific shares is not a recommendation to buy or sell. Any investment views expressed may no longer be current. This is not a personal recommendation for a specific investment. If you're not sure which investments are suitable for you, consult Fidelity's advisers or another authorised financial adviser.

Outlook **at a glance**

Current view: ●∘∘∘∘ – Very negative ∘●∘∘∘ – Negative ∘∘●∘∘ – Neutral
∘∘∘●∘ – Positive ∘∘∘∘● – Very positive

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

Asset classes	Current view	3 month change	At a glance
Shares	∘∘∘●∘	▲	An improving earnings outlook, supportive policy and reasonable valuations outside the US suggest the bull market can continue.
US	∘∘●∘∘	▶	Another year of relative underperformance looks likely as investors continue to rotate out of the highly valued US market.
UK	∘∘∘●∘	▶	The door has been opened to lower interest rates. This and attractive valuations make the UK market a compelling opportunity.
Europe	∘∘●∘∘	▶	Europe had a great 2025 as an early winner from the move out of the US. No longer obviously cheap, it might be hard to repeat this.
Japan	∘∘∘●∘	▶	Japan had a good year, but a case can be made for valuation gains, as reforms help the country move beyond deflation.
Asia and emerging markets	∘∘∘●∘	▶	A clear winner in 2025, the case for emerging markets remains strong. There's plenty of catching up still to do.
Bonds	∘∘∘●∘	▲	With interest rates poised to fall further, and the appeal of gold less obvious, bonds have an important role to play in a balanced portfolio.
Alternatives	∘∘●∘∘	▼	Gold has enjoyed a fantastic run. History suggests that latecomers to the party can regret their timing for many years to come.
Cash	∘∘∘●∘	▶	Although falling interest rates reduce the appeal of cash, it is important as dry powder in volatile markets, and as a store of value.

Triumph of the optimists

Tom Stevenson
Investment Director

This time last year, I said that the biggest mistake in 2024 was to have not been bullish enough. I then repeated the error by focusing on the risks of trade war, inflation and high valuations and not enough on the positives of resilient earnings and a compelling AI narrative. 2025 turned out to be a much better year than it would have been reasonable to expect.

I did say in January that Donald Trump's bark may be worse than his bite on the trade front and that proved to be correct. A lot of the politics in the first year of the President's second term was more performative than substantial. But he has still packed a lot into the last 12 months and never been out of the headlines. Fiscal spending and pressure on the Fed to keep interest rates low have given markets a boost.

Artificial intelligence dominated the market story in 2025, and it is likely to continue to do so. There was talk of an AI bubble. But that feels wide of the mark – for now. Yes, a gargantuan amount of money is being wagered on the new technology but, as with the internet 25 years ago, AI really does feel revolutionary. Internet investors were early but right in 1999. I suspect AI will change everything in the same way, with big winners as well as inevitable losers too.

As the chart opposite shows, 2025 delivered a third year of broad-based returns for investors. Diversification helped as performance rotated out of the US towards cheaper markets elsewhere. It paid to hold gold. Bitcoin and bonds were a less impressive backing track for the equity stars in Europe and emerging markets.

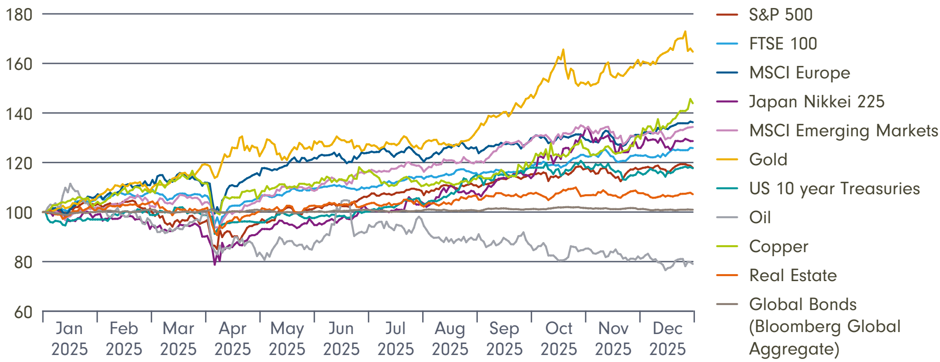
What does 2026 hold for investors?

After three years of rising markets, I'm optimistic but cautiously so. There's certainly a good case to be made for another year of decent returns, but it would be prudent not to expect another 20% year, and to put some protections in place.

I find Goldman Sachs's four phases of Despair, Hope, Growth and Optimism to be a useful framework for understanding the stock market cycle. The arrival of Covid six years ago triggered a short period of Despair, which quickly led to a sharp rebound from the spring of 2000. This was the Hope phase.

The Growth phase was shorter than usual, running through most of 2021 before rising interest rates delivered a sharp correction in 2022. Since then, we have been in the final, Optimism phase, in which rising earnings and higher valuations have combined to create a powerful market rally. As usual, valuations led the charge, with earnings then picking up the baton. For a fourth year of gains, we will need to see continued earnings growth and stable valuations. It's possible but not a given.

The good news is that, after a wobble in April after the announcements of trade tariffs, earnings forecasts have picked up again. We should see a couple of years of double-digit profit growth. Markets tend not to correct materially in the absence of an earnings recession. Higher profits will also bring valuations back to more sustainable levels.



Source: LSEG, total returns in local currency, 1.1.25 to 31.12.25

Past performance is not a reliable indicator of future returns. For 5 year figures, see page 7.

At the same time, interest rates should fall further, helped by a change at the top of the Federal Reserve in the spring. That will support shares and short-dated bonds, even if fears about debts and inflation prevent long bond yields from falling much further.

Bonds may not offer much growth but could still be a useful diversifier this year. That's especially the case because gold has arguably had the best of its run. Bitcoin looks to be pausing for breath, in line with its proven four-year cycle of gains and subsequent retreats. Creating balance as the equity bull market matures will be one of the biggest challenges in 2026.

Typically, this part of the cycle is characterised by heightened volatility. There's been little of this since last spring's tariff tantrum, but the last eight months might prove to be the calm before the storm. Returns can be good towards the top of a bull market, but investors will need to keep their nerve.

Fund picks – keep it simple

One of the things I have learned over ten years of fund recommendations at Fidelity, is the importance of keeping it simple. My best performers have been funds with broad investment universes and an uncomplicated focus – **Rathbone Global Opportunities** is the best example.

This was certainly the case last year, when the best performances were delivered by two global equity funds – **Dodge & Cox Worldwide Global Stock** and **Fidelity Global Dividend**. Their low teens growth was not outstanding in the context of a strong year in the markets, but it was steady and reliable.

International Public Partnerships was disappointing to start with, but it picked up from the spring. It remains a solid play on the need to invest in the UK's physical fabric, and the trust offers investors a high and growing dividend yield. The shares can be bought at a big discount to the value of net assets.

Brown Advisory US Smaller Companies has been a disappointment. But again, it has improved since the spring. It is a reminder that some of the best-performing recommendations have not delivered quickly but over time. This is a well-managed fund that I think will come good.

Turning to my 2026 fund recommendations, I remain optimistic, but I am tempering my enthusiasm with caution just over three years into the cyclical bull market. Corporate earnings look robust, and I expect policy to be supportive too. I predict the rotation out of the US that began last year will continue, and I'm looking for better relative performance from cheaper markets. I think that downward pressure on the dollar will provide a tailwind for emerging markets.

That's the backdrop to my three picks for 2026. First, I'm sticking with my preference for global equity funds. **Dodge & Cox Worldwide Global Stock** is a repeat recommendation, for which I make no apology. The fund has a value bias that will be helped by the rotation away from the US. It's a fund that has delivered well over the years for us. It has a disciplined stock-picking process and benefits from a team of experienced managers and analysts.

Fidelity Special Situations is a contrarian, valuation play that will be familiar to many Fidelity investors. Alex Wright has built on Anthony Bolton's success with this fund, delivering performance through a range of market environments. He has real stock-picking skill. Special Sits can invest a fifth of its assets outside the UK, which gives it flexibility. It has had a good run, but it is a solid long-term holding in my own portfolio and should deliver over time.

Finally, I am recommending another major holding in my own portfolio, **Lazard Emerging Markets**. Emerging markets were among the top performing equity assets in 2025, and I expect them to continue delivering this year. There is a long-term case for investing in regions of the world where growing wealth and positive demographics are driving economic growth. In the short run, too, a likely fall in the value of the dollar should provide a tailwind.

There's more detail on these fund picks, including a review of the past ten years of recommendations, in an article I've posted in the Markets and Insights section of the Fidelity website. As ever, I will be investing in all three picks in my own portfolio.

Source: LSEG, in local currency, 1.1.25 to 31.12.25

Past performance is not a reliable indicator of future returns.

(as at 31 December)	2021	2022	2023	2024	2025
S&P 500	28.7	-18.1	26.3	25.0	17.9
Nasdaq	22.2	-32.5	44.6	29.6	21.1
FTSE 100	18.4	4.7	7.9	9.7	25.8
MSCI Europe	17.0	-14.5	20.7	2.4	36.3
Nikkei 225	6.7	-7.3	31.0	21.3	28.7
MSCI Emerging Markets	-2.2	-19.7	10.3	8.1	34.4
Gold	-4.3	-0.7	12.8	26.6	62.5
Oil (WTI Crude)	67.5	25.5	0.3	9.4	-9.2
US 10yr Treasuries	-2.4	-17.0	3.6	-1.5	8.1
China CSI 300	-3.5	-19.8	-9.1	18.2	21.0
Copper	25.7	-14.1	1.2	2.2	43.9
Real Estate (S&P Global REIT)	32.5	-23.6	11.5	3.9	8.9
Global Bonds (Bloomberg Global Aggregate)	-4.2	-14.1	3.1	-0.5	1.0

Source: LSEG, total returns in local currency as at 31.12.25

Past performance is not a reliable indicator of future returns.

Important information – all funds invest in overseas markets so the value of investments could be affected by changes in currency exchange rates. The shares in the International Public Partnerships Limited (INPP) Investment Trust are listed on the London Stock Exchange and their price is affected by supply and demand. The investment trust can gain additional exposure to the market, known as gearing, potentially increasing volatility.

Shares

Current view Positive

3 month change Upgrade

It has been a generation since a buoyant US stock market has been so dependent on a single narrative delivered by such a concentrated group of shares. The outlook for equities hangs on how the AI story plays out. It is not the only game in town, but it is the most important one.

High valuations are pricing in a Goldilocks scenario in which heavy investment in artificial intelligence delivers hoped-for gains without the collateral damage of layoffs and reduced consumer spending that it could be reasonable to expect as the price for higher productivity and profitability.

The US stands to be a major beneficiary of AI, but its consumer-focused economy is at risk if the stock market gains of a new tech boom accrue to the few at the expense of the many. This is the tightrope that markets are walking as we enter 2026.

For now, it feels right to be optimistic. Earnings growth forecasts have improved steadily since the spring and double-digit profit gains this year and next would go a long way to justifying valuation multiples at their current level. At the same time, central banks everywhere except Japan have the scope to reduce interest rates further. A recession feels unlikely.

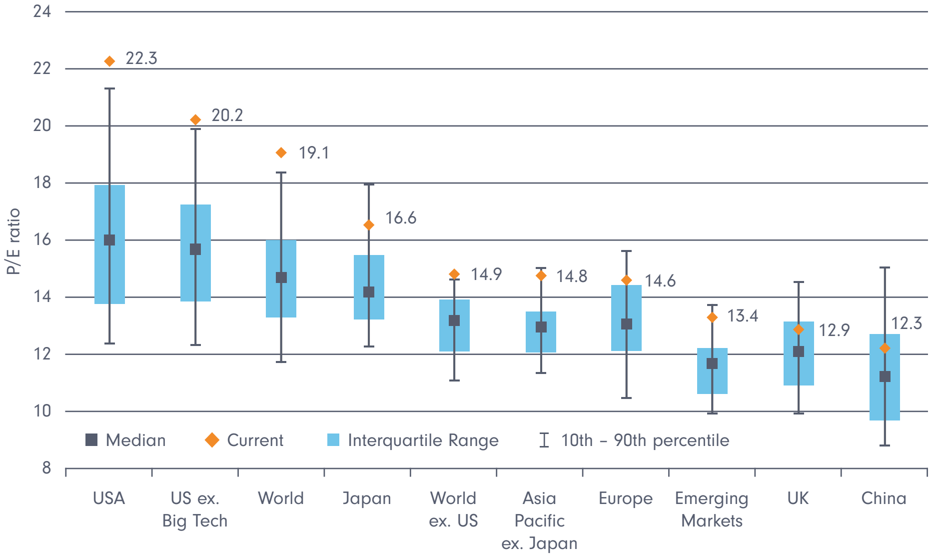
Last year saw the benefit of diversification and this year should be no different. Most major markets outperformed the US and, with the valuation gap still very wide, there is scope for investors to seek out a more attractive risk/reward ratio in cheaper markets around the world. Not only are valuations in China, Europe, emerging markets and the UK much cheaper than in the US, they are much more in line with their own historic ranges.

Diversification is not just about geography either. The growth style has dominated in the US, but value is outperforming elsewhere. The rally is broadening out from the Magnificent Seven. That suggests it can run for longer. Less reliance on one narrow part of the market is good news for active managers, too, and may signal a reversal of passive funds' dominance. Indeed, if the tech leaders start to underperform, investors will look to stock-pickers to protect them from a drag on the broader market indices.

There have been some echoes of the 1999 dot.com bubble in 2025, but we feel a long way from that kind of top-of-the-market euphoria today. The performance of technology has been a reflection of fundamental growth rather than irrational exuberance and speculation. That said, it will pay to think beyond the early and obvious beneficiaries of AI in the months and years ahead. As with the internet boom, the real beneficiaries could be those companies that harness the new technology, rather than those that provide it.

There are opportunities for investors all around the world. Within the US, smaller companies have lagged. In China, the innovation of technology companies (highlighted early last year by Deepseek) has not been priced in as it has in America. The UK is an obvious valuation play. Europe is learning to stand on its own two feet, with clear benefits to its industrial and defence sectors. Japan has shaken off its long deflationary malaise and is benefiting from powerful corporate governance reforms. A falling dollar will allow emerging markets to build on their market leadership last year.

Global valuations



Source: FactSet, Goldman Sachs Global Investment Research, December 2025. 12 month forward price/earnings multiple data for the last 20 years. The interquartile range shows the middle 50% of values over the last 20 years.

So, while the bull market is clearly long in the tooth, it feels like it has further to go. Some of the worries that plagued markets in the early part of 2025 have faded. The economic environment is positive, and policy is supportive. There are known unknowns ahead – an important change at the Fed, mid-term elections, an uncertain outlook for Ukraine and Gaza, the US intervention in South America – not to mention plenty of unknown unknowns too, as is always the case for investors. But staying invested, being diversified and holding a decent cash buffer to ride out any volatility looks like a sound strategy for 2026.

Fund picks: Dodge & Cox Worldwide Global Stock offers investors a value-focused global exposure with an underweight to the relatively expensive US market. **Fidelity Global Dividend** has a similar non-US exposure with an income focus.

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

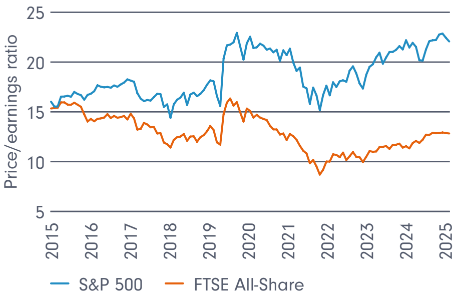
Global markets in charts and numbers

	UK	US	Europe	China	Japan	Emerging Markets
Price/earnings	12.9	22.2	14.9	12.3	15.7	13.9
Price/sales	1.5	3.3	1.6	1.4	1.3	1.7
Price/book value	2.0	4.8	2.0	1.4	1.5	1.9
Enterprise value/Ebitda	8.3	15.2	10.1	10.7	10.8	9.6
Dividend yield	3.5	1.5	3.4	2.8	2.4	3.0
CAPE	16.5	39.7	21.2	15.2	25.0	19.3

Source: FactSet, 17.12.25. Based on forecasts for 2026. CAPE data from Research Affiliates, as of 30.11.25

One of the big stories of 2025 has been the rotation out of US shares into better value markets in the rest of the world. This table is a vivid illustration of why investors have wished to reduce their exposure to the US. On whatever valuation metric you choose, it is the most expensive market in the world. There may be good reasons for this, but in the long run valuation is a good predictor of returns. Japan, which was out of favour for many years, is no longer obviously cheap. China and the UK stand out as the markets in which investors can find the best value today.

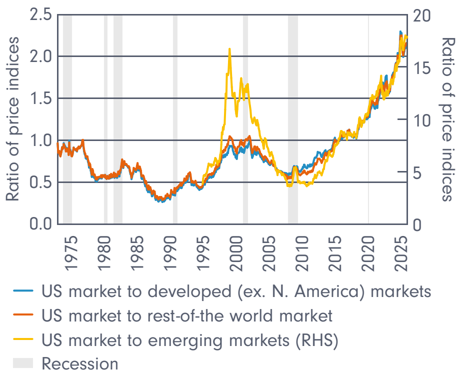
The valuation case for UK shares



Source: LSEG, 31.12.15 to 18.12.25

This chart shows how the valuation differential between the US and the UK has evolved over the past 10 years. The UK discount has been a decade in the making, and it is hard to avoid the conclusion that our domestic political dramas have been a turn-off for international investors. What it does suggest, of course, is that a return to a more predictable and stable political environment could deliver big benefits for investors in the out-of-favour UK market.

The end of US exceptionalism?



Source: LSEG, 1.2.73 to 1.12.25

The valuation premium of the US market is the consequence of many years of outperformance. The chart above shows how cyclical this relative performance tends to be. That and the extreme nature of the outperformance since the financial crisis suggest that a reallocation towards the rest of the world, both developed and emerging, may run for some time. The other takeaway from this chart is the volatility of emerging markets. They both underperform and outperform the US to a dramatic extent.

United States

Current view Neutral

3 month change Unchanged

The base case for US equities is a continuing but volatile bull market. Earnings growth is expected to broaden out beyond AI beneficiaries and down the market cap scale. Lower interest rates following a changing of the guard at the Fed will be supportive. The biggest risks centre on the US's high starting valuation. The pressure is on earnings to keep delivering.

This balance of forces is reflected in a wide range of forecasts and their downwards skew. For example, Citi has an S&P 500 target of 7,700 for the year end, roughly 10% above the current level, but notes an only modestly higher 8,300 bullish target and a much lower 5,700 bearish one. That makes clear the bank's views on the relative upside and downside risks. That framework looks sensible.

Citi thinks the AI narrative continues but shifts towards a winners-versus-losers analysis as investors start to weigh up which companies and sectors will benefit from the new technology, and which might find themselves on the wrong side of it. This makes a strong case for active investment. The dispersion of returns at the individual stock level could be quite high. Good stock picking will be rewarded.

The changing AI story, together with high valuations and the need for earnings to deliver quarter by quarter will no doubt lead to greater volatility this year. This is typical of the later stages of a bull market and will test investors' nerves.

Fund picks: a broadening of the bull market, and lower valuations further down the size scale, should benefit **Brown Advisory US Smaller Companies**, so we stick with last year's recommendation as well as **Legal & General S&P US Equal Weight Index**.

United Kingdom

Current view Positive

3 month change Unchanged

The FTSE 100 enjoyed its best year since 2009, rising nearly 20% in 2025, but the interest in 2026 may well shift to the FTSE 250 index, which lagged the blue-chip index last year. Political uncertainty ahead of the Budget explains much of the underperformance, and the outlook is better for the year ahead as a set of broadly disinflationary policies opens up the prospect of further interest rates cuts and the hope that gilt yields will stabilise.

The underperformance of the UK's mid-caps has left the FTSE 250 on a very undemanding multiple of around 12 times expected earnings, even less than the still attractively priced FTSE 100, which trades on a price-earnings ratio of about 13. The mid-cap index offers investors a yield of over 4%, making it an attractive destination for income investors as cash yields start to fall. As Alexandra Jackson at Rathbones says: 'UK equities are cheap compared to history and compared to their global peers. UK mid-caps are cheaper still.'

Clearly there are problems in the UK economy. Growth is sluggish, government finances are fragile, and the UK stock market remains unattractive to companies looking to list. However, a steady flow of takeovers of UK companies, at premiums to their market prices, indicates the value to be found here.

Fund pick: Fidelity Special Situations is a contrarian, value-focused fund that will be familiar to many Fidelity investors and this year makes our shortlist of fund recommendations.

Europe

Current view Neutral
3 month change Unchanged

Europe was one of the best performing equity regions in 2025, although the gains were largely front-loaded. Alongside emerging markets, Europe was one of the main beneficiaries of a rotation out of the highly valued US market, and there is a reasonable case for it to continue to outperform in the year ahead.

The case for Europe has strengthened considerably, according to Fidelity's chief investment officer for equities, Niamh Brodie-Machura. It has benefited from a combination of lower interest rates, fiscal support from governments and lower inflation. All of that has created a supportive environment for corporate investment and consumer confidence.

Looking into 2026, interest rates may not fall any further, but they are likely to be maintained at a low level. At the same time, the fiscal outlook is much improved, with Germany pledging a €500bn infrastructure fund and exemptions to its debt brake for defence spending. Companies that have been underinvesting for decades are starting to spend again, with energy, security, infrastructure and AI all benefiting.

At the same time, valuations remain attractive versus the US, if no longer obviously cheap compared to the region's own history. There are concerns – notably political uncertainty in France – but this is largely in the price. Resolution of the war in Ukraine would be the icing on the cake, and pave the way for another strong year for European equity markets.

Fund picks: The Select 50 offers growth, value and low-cost options to investors looking for European exposure. They are, respectively, **Barings Europe Select, Schroder European Recovery** and **Vanguard FTSE Developed Europe ex UK UCITS ETF**.

Japan

Current view Positive
3 month change Unchanged

Japanese shares have now enjoyed three consecutive years of strong double-digit gains, pushing the Topix index up to a record year-end level of over 3,400. Last year's rise was nearly 24% as investors focused on Japan's exposure to the AI boom, its apparent ability to withstand geo-political and trade tensions, as well as a return to positive inflation and ongoing progress in implementing corporate reforms.

Despite the gains, another year of progress looks to be on the cards, with Citi forecasting a high of 4,000 for the Topix this year and 60,000 on the Nikkei 225. The previous high of around 40,000 for the Nikkei, which held for decades after the 1980s boom, now looks firmly in the past.

Strong corporate earnings growth in an environment of sustained positive inflation is the key driver of this bullish forecast. The proportion of companies outpacing forecasts has remained high, particularly those benefiting from an improvement in domestic consumer sentiment as wages have risen faster than inflation.

At the same time, although valuations are now higher than in many regions outside the US, there is still scope for them to improve further on the back of higher margins in a more inflationary environment and share buybacks, a key element of corporate reforms. Improving returns at home could also lead to the repatriation of money invested overseas during Japan's long deflationary slump.

The final contribution to Japan's more positive outlook is the recent change in government. Japan's first female prime minister, Sanae Takaichi, has laid out plans for massive stimulus spending. Defence stocks, in particular, have performed well as government spending has risen and regional security concerns have intensified. The prospect of further interest rate increases in 2026 has boosted bank stocks.

Fund picks: The Select 50 offers growth, value and low-cost exposures to Japan via, respectively, **Baillie Gifford Japanese**, **Schroder Japan** and the **iShares Core MSCI Japan IMI UCITS ETF**.

Asia Pacific and emerging markets

Current view Positive
3 month change Unchanged

Emerging markets were among the best-performing equity assets last year and the outlook remains positive for 2026. The outperformance in 2025 was partly explained by low valuations starting to catch up with higher multiples in the US, and to an extent by currency effects. But the main driver was high earnings growth – about 13.5% versus 11% in America.

Earnings growth expectations continue to rise, with up to 18% pencilled in for emerging markets over the next 12 months, driven by some of the largest companies like Taiwan Semiconductor and SK Hynix, which are exposed to the global technology cycle. Rising earnings will keep valuations relatively attractive and that, in turn, will attract further capital flows as investors look to diversify away from the US.

At the same time as earnings are growing, China continues to export disinflation, a consequence of its high savings, high investment economic structure. That will allow central banks in emerging markets to continue cutting interest rates, which offers the prospect of a positive backdrop of stable growth and low inflation.

We tend to think of AI as being a US-focused story but many of the beneficiaries are in emerging markets and they are much more attractively valued than their peers in America. The case for a rotation of assets out of the US towards emerging markets remains compelling.

Fund pick: Lazard Emerging Markets is one of our fund picks for 2026. It will benefit from the trends outlined here, is well managed by an experienced team, and can build further on its track record of delivering strong and consistent growth.

Bonds

Current view Positive
3 month change Upgrade

The outlook for government bonds is balanced. The positive case for the safest fixed income assets like Treasuries and Gilts is that interest rates will most likely fall further in 2025. In the US, this process will be given added impetus by the change of leadership at the Fed in May when the current chair, Jerome Powell, steps down. His replacement is certain to be more amenable to the President's desire for lower interest rates to boost the economy.

The counter argument is that longer maturity bond yields may not follow interest rates lower if investors worry about high levels of debt issuance and/or persistent inflation. The good news is that higher for longer yields will keep the total return from bonds competitive, even if there is little in the way of capital gain.

Yield is a big part of the case for corporate bonds, too. The extra premium that investors earn for the risk of holding company rather than government bonds has fallen to historically very low levels. But, because the risk-free rate is still high, the income from corporate bonds, even at these tight spreads, is attractive. That means that investors are getting compensated for the growing risk of default as the economy slows.

In the absence of defaults, bonds are delivering a strong income. Despite a backdrop of falling interest rates, yields are higher than they have been over the last decade, as the chart opposite shows.

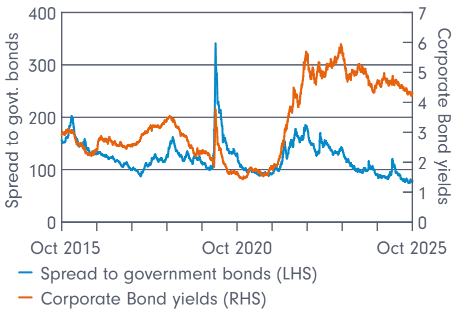
As in the equity market, much of the extra return in the next year will come from careful stock selection. In some parts of the market, valuations are less stretched. The trick is to find bonds where default risks are lower than the market is pricing. This is where a good fund manager can help. Avoiding corporate failures is key to generating a decent return from a portfolio of bonds.

Currencies can play an important role for bond investors. Exchange rate movements can enhance or reduce the returns from income and capital. This is one reason why emerging market bonds might do well in the year ahead. Interest rates are still high in countries like Brazil and there is still scope for currency appreciation.

Inflation is always the big risk for fixed income investors. Markets are pricing in another three or four rate cuts in the US and this may not be possible if inflation remains higher than target.

Fund picks: Vanguard Global Short-term Bond Index should benefit from falling interest rates more than a fund with longer maturity bonds. For emerging market bond and currency exposure, **Legal & General Emerging Markets Government Bond (Local Currency) Index** could be worth a look.

Spreads may be tight but yields are attractive



Source: LSEG, 31.10.15 to 31.10.25

Alternatives

Current view Neutral

3 month change Downgrade

With equity markets three years into a cyclical bull market, and arguably nearly 17 years into the long-run one that's been in place since the financial crisis, investors are naturally looking for assets to create balance and diversify their risk. Traditionally, bonds have played that role and for many years a 60/40 balance of shares and bonds was considered prudent.

In 2022, however, both shares and bonds moved in tandem as interest rates rose to

For a brief video update on bonds scan the QR code or visit **fidelity.co.uk/investmentoutlook** counter the post-pandemic inflation threat. And that meant that bonds were no longer a good diversifier in a portfolio. They made a difficult year even worse.

In the years since, investors have not worried too much about diversification because stock markets have been so strong. Hopefully, that will continue to be the case in 2026, but it is always best to fix the roof while the sun shines. Putting in place a balanced portfolio now, while markets are buoyant makes good sense. But that does not mean it is easy.

One reason why it is hard to create a well-diversified portfolio today is that another traditional diversifier – gold – has enjoyed such a strong run. In fact, the precious metal outpaced almost every stock market last year, rising by more than 70%.

There are many reasons for gold's stunning performance in recent years. It is seen as an important hedge against many of the worries facing investors. These include inflation and excessive government debts. Many central banks are buying gold to reduce their exposure to US dollar assets such as Treasury bonds.

It is very hard to know whether gold is fairly priced or overvalued. Because it pays no income, there is no simple way of comparing it to other assets like bonds, cash or shares. Although it has more than doubled over the past three years, that is no different from what happened in the 1970s before the price doubled again after the Iranian revolution in 1979.

But, as the chart opposite shows, buying gold after a sharp rise has, in the past, led to many years of disappointing returns. The risks of holding gold now are high.

So, a balanced portfolio will probably seek to hold a number of alternative assets. As well as bonds and shares, it may include gold. It should include cash, both as a source of income but also as dry powder in case of a sharp fall in markets. It may well include property and infrastructure investments.

Whether or not it includes bitcoin as well is a personal choice. Bitcoin has been a very useful diversifier in recent years but in 2025 it lost value. It is a volatile asset, sometimes seen as a kind of digital gold, at other times behaving as a risk asset that mimics the behaviour of the more choppy parts of the stock market. A fairly long-established four-year pattern of growth and retreat, suggests 2026 may be another year of consolidation for crypto.

Fund picks: Gold can be accessed in two ways via the Select 50. Directly via the **iShares Physical Gold ETC** and indirectly via **Ninety One Global Gold**. Infrastructure exposure is via International Public Partnerships or **First Sentier Global Listed Infrastructure**.

Source: LSEG, 3.1.68 to 3.12.25

Past performance is not a reliable indicator of future returns.

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

In summary

After three years of strongly rising markets, it is understandable that investors should be hopeful for a continuation of the good times but sensible not to feel entitled to another rewarding year. There are no obvious reasons for markets to change direction at the moment, but that is precisely when investors should temper their optimism with caution.

With the exception of the US, which looks expensive, the gains in stock markets around the world look to be justified by strong earnings growth and the promise of more to come. Valuations in most cases are within or only slightly above long-term ranges. Monetary and fiscal policy looks supportive.

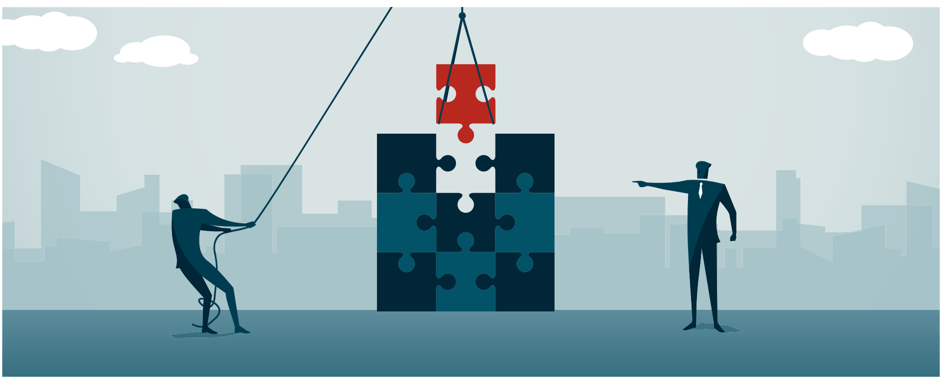
Investors looking to protect themselves from America's high valuations have plenty of options. The cases for the UK, Europe, China and Japan are all different. Put them together and it is not hard to create a geographically diversified portfolio.

Bonds, the traditional diversifier in a balanced portfolio do not look cheap, particularly not higher quality corporate bonds. But they continue to offer an attractive yield. For more risk averse investors, they have a role to play.

Gold has been a big help in recent years and may continue to be so. But it feels hard to jump on this bandwagon now. History has not been kind to investors who came late to the precious metal party. Bitcoin has punished late arrivals already, and the next up-leg does not feel imminent.

Your attitude to market risk as we enter 2026 will be influenced heavily by personal factors such as your age. A younger investor may well feel relaxed about having a full exposure to markets even at this mature stage in the cycle. And rightly so. Even if you had invested at the top of the dot. com bubble 25 years ago, the pain of the subsequent correction has long since been erased by new gains. The same will no doubt be true of the current AI-fuelled bull market.

For older investors, closer to retirement and with more to lose, the desire to protect recent gains will be felt more keenly. Wherever you are on your investing journey, we wish you well in 2026 and beyond.



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 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. Investment values (and income from investments) can go down as well as up, so you may get back less than 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. Shares in investment trusts are listed on the London Stock Exchange and their price is affected by supply and demand. Investment trusts can gain additional exposure to the market by borrowing, known as gearing, potentially increasing volatility.

Standardised performance data for the Select 50 (%) over the past five years

% (as at 31 December)	2021	2022	2023	2024	2025	Morningstar Fund Rating
Global						
BNY Mellon Long Term Global Equity Fund	19.7	-9.3	14.8	9.6	1.7	★★★
Dodge & Cox Worldwide – Global Stock Fund	21.4	4.9	13.9	7.0	15.8	★★★★
Fidelity Global Dividend Fund	12.8	0.2	9.5	13.5	15.1	★★★★
Legal & General Global Equity Index Fund	22.1	-7.8	16.9	19.8	14.5	★★★★
Rathbone Global Opportunities Fund	20.5	-20.4	18.3	17.5	6.0	★★★★
Schroder Global Recovery Fund	23.9	1.6	13.8	7.7	21.6	★★★
Vanguard Global Small-Cap Index Fund	16.7	-8.6	9.3	9.9	11.6	★★★★

% (as at 31 December)	2021	2022	2023	2024	2025	Morningstar Fund Rating
North America						
Brown Advisory US Smaller Companies Fund	9.1	-10.3	6.5	6.6	-4.5	★★★
Brown Advisory US Sustainable Growth Fund	31.0	-22.8	30.9	22.3	-3.8	★★
Dodge & Cox Worldwide – US Stock Fund	32.6	2.8	10.2	16.6	3.7	★★★★
Legal & General S&P 500 US Equal Weight Index Fund	-	-	-	-	3.7	-
Vanguard S&P 500 ETF	29.6	-8.1	18.8	26.9	9.5	★★★★
UK						
Fidelity Special Situations Fund	23.7	-0.5	6.3	16.4	25.6	★★★★★
FTF ClearBridge UK Equity Income Fund	17.9	2.3	6.4	6.5	21.8	★★★★
iShares Core FTSE 100 ETF	18.3	4.7	7.8	9.5	25.6	★★★★★
Liontrust UK Growth Fund	21.0	-1.1	4.7	4.6	1.9	★★★
Vanguard FTSE 250 ETF	16.7	-17.5	7.9	7.9	12.8	★★★★
Europe						
Barings Europe Select Trust	14.2	-18.5	6.7	0.8	16.0	★★★
Schroder European Recovery Fund	17.3	6.6	13.7	-2.3	35.7	★★★
Vanguard FTSE Developed Europe ex UK ETF	17.2	-7.8	15.4	2.4	27.4	★★★★
Asia and emerging markets						
Fidelity Funds – Asian Smaller Companies	16.3	5.2	7.3	3.1	13.9	★★★★
Fidelity Responsible Emerging Markets Equity Fund	-	-	-	0.7	17.4	-
iShares Core MSCI Emerging Markets ETF	0.7	-10.2	4.9	9.2	23.4	★★★★
Lazard Emerging Markets Fund	6.7	-5.1	15.4	9.2	32.4	★★★★★
Schroder Oriental Income Fund	6.7	0.3	3.1	12.7	30.0	★★★★
Japan						
Baillie Gifford Japanese Fund	1.1	-13.8	1.5	4.0	16.1	★★
iShares Core MSCI Japan ETF	1.8	-5.6	12.2	9.5	16.7	★★★★
Schroder Japan Trust	9.6	-2.1	16.4	14.8	28.2	★★★★★

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

% (as at 31 December)	2021	2022	2023	2024	2025	Morningstar Fund Rating
Bonds						
AXA Sterling Credit Short Duration Bond Fund	-0.1	-4.2	7.8	4.2	6.1	★★★
Colchester Global Bond Fund	-7.3	-4.2	-1.1	-6.0	3.8	★★★
iShares ESG Screened Overseas Corporate Bond Index Fund	-2.3	-5.3	3.1	2.9	2.8	★★★★
iShares Overseas Government Bond Index Fund	-5.9	-5.8	-2.3	-1.7	-1.3	★★★★
JPM Global High Yield Bond Fund	5.7	-10.8	10.2	7.6	8.8	-
Legal & General Emerging Markets Government Bond Index Fund	-8.3	-0.3	6.4	-1.3	10.0	★★
M&G Corporate Bond Fund	-1.8	-15.3	10.6	2.0	6.6	★★★★
M&G Emerging Markets Bond Fund	-1.4	-2.2	7.8	5.4	8.7	★★★★★
Royal London Short Duration Global Index Linked Fund	4.6	-5.4	5.5	1.9	5.5	★★★★
Vanguard Global Short-Term Bond Index Fund	-0.9	-5.8	5.1	4.1	5.3	★★★★
Alternatives						
First Sentier Global Listed Infrastructure Fund	15.1	-2.0	0.1	8.8	14.0	-
International Public Partnerships Limited	4.4	-6.7	-4.0	-5.8	11.0	-
iShares Environment and Low Carbon Tilt Real Estate Index Fund	28.3	-15.4	4.1	0.4	2.1	★★★
iShares Physical Gold ETC	-2.8	11.8	7.2	28.2	53.7	-
Legal & General Cash Trust	-0.1	1.3	4.7	5.2	4.3	-
Ninety One Diversified Income Fund	1.5	-5.4	6.1	4.0	7.6	★★★★
Ninety One Global Gold Fund	-11.7	1.0	3.8	10.0	165.1	★★★★
Pyrford Global Total Return Fund	3.3	1.4	5.4	3.1	9.0	★★★★

Before you invest, please ensure you have read Doing Business with Fidelity and the Key Investor Information Document (KIID) or Fund Specific Information Document (FSI) relevant to your chosen fund(s). These documents give you all the information you need to know about Fidelity and the funds we offer, 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 31.12.20 to 31.12.25. Basis: bid to bid with income reinvested in GBP. Excludes initial charge. The fund's primary share class according to the Investment Association is shown. For the latest yields please call 0800 41 41 61 or visit fidelity.co.uk

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Source: Fidelity as at 30.9.25

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