INVESTMENT OUTLOOK

Fidelity Personal Investing's market and investment view

In this issue:

- The end of US exceptionalism
- Volatility: the price of performance
- The power of diversification

April 2025

ISAs | Pensions | Funds | Shares | Advice

Fidelity INTERNATIONAL

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Outlook **at a glance**

Current view: Very negative – Very negative · Negative – Negative · Neutral – Neutral · Positive – Positive · Very 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	Neutral	Unchanged	Global markets have responded to Donald Trump's tariff shock. The sell-off may continue but the time to act has passed. A moment to stay calm.
US	Neutral	Downgrade	The rotation out of the US stock market may continue, but the case for an exposure to America's high-growth companies remains intact.
UK	Positive	Unchanged	Investing in the UK stock market is not the same as investing in the UK economy. Income and low valuations continue to create opportunities.
Europe	Neutral	Unchanged	Donald Trump has been a gift to Europe. A fiscal rethink could kickstart the region's economy. But will returns come quickly enough?
Japan	Positive	Unchanged	Foreign investors have deserted Japan. But the fundamentals remain attractive. Reforms, valuations and domestic buying are positives.
Asia and emerging markets	Positive	Upgrade	China is back. Momentum is positive, the economy improving, policy more supportive and valuations are still reasonable despite a strong rally.
Bonds	Positive	Upgrade	Falling interest rates, reliable income and diversification make a strong case for balancing your equity holdings with some bonds.
Gold	Positive	Unchanged	The case for this traditional safe haven is stronger than ever as central banks and ETF demand keep upward pressure on the gold price.
Cash	Positive	Unchanged	Higher for longer interest rates and the need for dry powder in volatile markets mean cash continues to earn its place in a balanced portfolio.

Riding the tariff turmoil

Tom Stevenson
Investment Director

We live in interesting times. For more than two years, the prevailing narrative of American exceptionalism had made investing simple. Being overweight the US was the only decision that mattered. Everything else was tinkering around the edges.

Expecting that to continue was complacent even before Donald Trump's tariff shock. A shift in global equity markets was underway, driven by two factors. US economic growth was moderating from a high level, but improving in other parts of the world, notably Europe and China. And the high concentration in the US stock market meant the performance of big technology stocks had swung from tailwind to headwind.

But then Donald Trump outlined his radical tariffs in the White House's Rose Garden and the whole market narrative was torn up. A rotation out of the US suddenly looked like the least of investors' problems. Investors are now facing more existential questions: are we heading into a global recession and have the cyclical and secular bull markets that peaked in February hit the buffers?

What drives markets is not so much what is happening as how that compares with what has been priced in. With US markets highly valued and the rest of the world out of favour, even marginal shifts in expectations can lead to big relative shifts in performance. And what President Trump is proposing is no marginal shift.

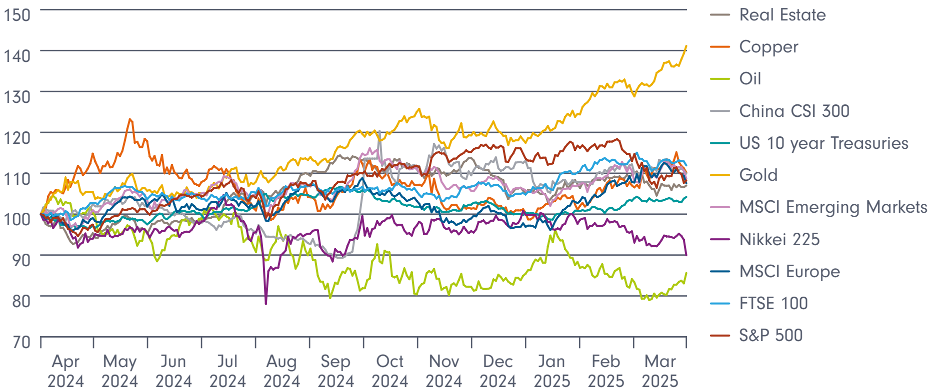
Investors are starting to price in the possibility of a recession in the US. This matters because history shows that equity markets tend to respond positively to an interest rate cutting cycle when there is no recession and negatively when there is an economic downturn. In the first six months since US monetary policy started to ease, markets confidently priced the first outcome. They are rapidly re-adjusting to the second.

Meanwhile, in the rest of the world, hopes for improving growth prospects have been swamped by the tariff threat. In Europe, proposals for an unprecedented fiscal package to boost defence and infrastructure spending promise a better growth outlook. In China, a more supportive policy approach and stabilising property market are boosting sentiment. But will those positives be enough in the face of a trade war.

What is surprising is how few investors read the shifting sands correctly three months ago. Goldman Sachs asked investors at a strategy conference in January what they thought about the new US government's policies. More than 50% said they would be good for the US and bad for the rest of the world. Just 2% expected the reverse.

It really is a great advertisement for diversification. Even when we know what is happening, we very often don't fully understand what the implications will be or who will end up winning and losing. Only with the benefit of hindsight does it all seem obvious.

The chart on page 5, which predates the tariff announcement, illustrates the benefits of a balanced portfolio. This is likely to continue in the year ahead when a calm head will be



Source: Refinitiv, total returns in local currency, 1.4.24 to 31.3.25

Past performance is not a reliable indicator of future returns. For 5 year figures, see page 6.

at a premium. Over-reacting to downturns and missing out on unexpected rallies can eat into the superior returns that accrue to patient long-term investors.

Fund picks

It has been a mixed start for my 2025 fund picks. The first quarter of the year has been volatile, and it has seen a significant rotation out of the US. Like many other investors, I only partially understood what was unfolding three months ago.

I correctly anticipated the correction in the highly valued tech giants but misread the impact of the Trump tariffs on smaller US companies. I thought that protectionism would favour domestic US stocks, but the growth scare triggered by the President's hard-line trade strategy has seen a broad-based correction on Wall Street. The **Brown Advisory US Smaller Companies Fund** remains a good long-term investment in my view, but it is suffering in the shorter term.

Investing globally has only partially paid off because America sneezing has caused the rest of the world to catch a cold. But both the **Dodge & Cox Worldwide Global Stock Fund** and the **Fidelity Global Dividend Fund** are explicitly underweight the US. And that has been a positive as markets have corrected.

The wild card pick this year, **International Public Partnerships**, is a play on the newish Labour government's determination to reverse years of underinvestment in Britain's public infrastructure. It has not paid off so far. However, I think investing in the UK's essential physical fabric – schools, transport, energy, healthcare etc – will work out well in due course. And this investment trust has the added attraction of trading at a big discount to net assets and offering a high and rising dividend yield. Corporate activity in the investment trust sector provides further interest.

In addition to my four fund picks, I recently outlined a longer-term portfolio of investments that I have called my 'Ten for 10' – ten funds that I have personally decided to hold for 10 years. It is a diversified set of investments, which I hope will serve me well whatever the markets serve up in the decade to come. I am invested in all of them.

One important caveat should be explained. Although the list is well-diversified, it does not represent all my investments. I also have a sizeable cash buffer to avoid becoming a forced seller. I am also, obviously, still working. This is important context. Even without this background, I should be clear that this list describes my personal approach – it is not meant to be advice. If you are looking for that, please do seek out a qualified adviser, at Fidelity or elsewhere.

For a full explanation of the rationale for these picks, which include all four of my 2025 recommendations, go to the markets and insights section of the website and search for 'ten for 10'.

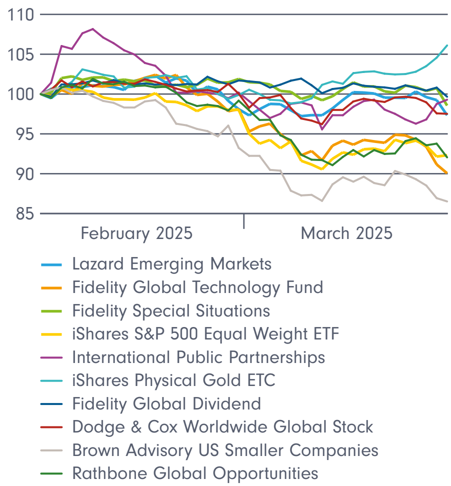
The funds are grouped in five pairs:
Growth: **Rathbone Global Opportunities** and **Brown Advisory US Smaller Companies**.

Value: **Fidelity Global Dividend** and **Dodge & Cox Worldwide Global Stock**.

Defence: **iShares Physical Gold ETC** and **International Public Partnerships**.

Market rotation: **iShares S&P 500 Equal Weight ETF** and **Fidelity Special Situations**.

Changing World: **Fidelity Global Technology** and **Lazard Emerging Markets**.



Source: Refinitiv, total returns in local currency, 1.2.25 to 31.3.25

Past performance is not a reliable indicator of future returns, for 5 year figures please see p17-19.

(as at 31 March)	2020-21	2021-22	2022-23	2023-24	2024-25
S&P 500	56.4	15.7	-7.7	29.9	8.3
Nasdaq	73.4	8.1	-13.3	35.1	6.4
FTSE 100	21.9	16.1	5.4	8.4	11.9
MSCI Europe	45.7	4.1	2.0	14.8	7.5
Nikkei 225	56.7	-2.8	3.1	46.7	-10.1
MSCI Emerging Markets	58.9	-11.1	-10.3	8.6	8.7
Gold	4.4	13.1	0.7	12.1	39.4
Oil (WTI Crude)	80.3	84.3	-14.0	19.5	-2.9
US 10yr Treasuries	-8.1	-2.8	-6.9	-2.3	4.2
China CSI 300	39.9	-14.9	-1.8	-10.5	13.6
Copper	77.9	18.0	-13.2	-2.6	10.2
Real Estate (S&P Global REIT)	37.4	20.0	-19.4	8.7	6.6

Source: Refinitiv, total returns in local currency as at 31.3.25

Important information – past performance is not a reliable indicator of future returns. All funds invest in overseas markets so the value of investments could be affected by changes in currency exchange rates. The Dodge & Cox Worldwide Global Stock Fund, Fidelity Special Situations Fund, Fidelity Global Technology Fund and Fidelity Global Dividend Fund use financial derivative instruments for investment purposes, which may expose the funds to a higher degree of risk and can cause investments to experience larger than average price fluctuations. The Dodge & Cox Worldwide Global Stock Fund and Lazard Emerging Markets Fund invest in emerging markets which can be more volatile than other more developed markets. The Fidelity Global Dividend Fund and Rathbone Global Opportunities Fund invest in a relatively small number of companies so may carry more risk than funds that are more diversified. This Brown Advisory US Smaller Companies Fund invests more heavily than others in smaller companies, which can carry a higher risk because their share prices may be more volatile than those of larger companies and the securities are often less liquid. The Brown Advisory US Smaller Companies Fund, Fidelity Special Situations Fund, Fidelity Global Technology Fund, Rathbone Global Opportunities and Dodge & Cox Worldwide Global Stock Fund, have or are likely to have, high volatility owing to its portfolio composition or the portfolio management techniques. 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. The Key Investor Information Document (KIID) / Key Information Document (KID) for Fidelity and non-Fidelity funds is available in English and can be obtained from our website at fidelity.co.uk

Shares

Current view Neutral
3 month change Unchanged

Before and after the tariff shock, the story in equity markets so far this year has been one of divergence. The US has significantly underperformed other markets. This is unusual and we should not necessarily expect it to continue. The rest of the world is unlikely to be immune to any further deterioration in growth and inflation expectations in the US. History shows that when the US market falls by more than 10%, other markets tend to track it lower. Whether the first quarter US correction builds into a 2025 bear market matters, even to well-diversified investors.

An analysis by Goldman Sachs of all the corrections of at least 10% in the S&P 500 index since 1990 shows an average decline of 21% in the 17 instances over that period. The median decline, which reduces the impact of the big falls during the bursting of the dot.com bubble and the financial crisis, has been 16%. By comparison the average and median falls in Japan have been 21% and 17%. Here in the UK, they have been 16% and 13%. Europe has been 20% and 17% and Asia 21% and 17%. We tend to follow America's lead.

One of the reasons to expect global markets to move broadly in line with the US is valuation. Although, as the chart on page 9 shows clearly, the US remained an outlier in valuation terms before the tariff correction, other markets were no longer obviously cheap versus their own history. Looking at the ranges over the past 20 years or so, most had recovered significantly from the low points reached in 2023.

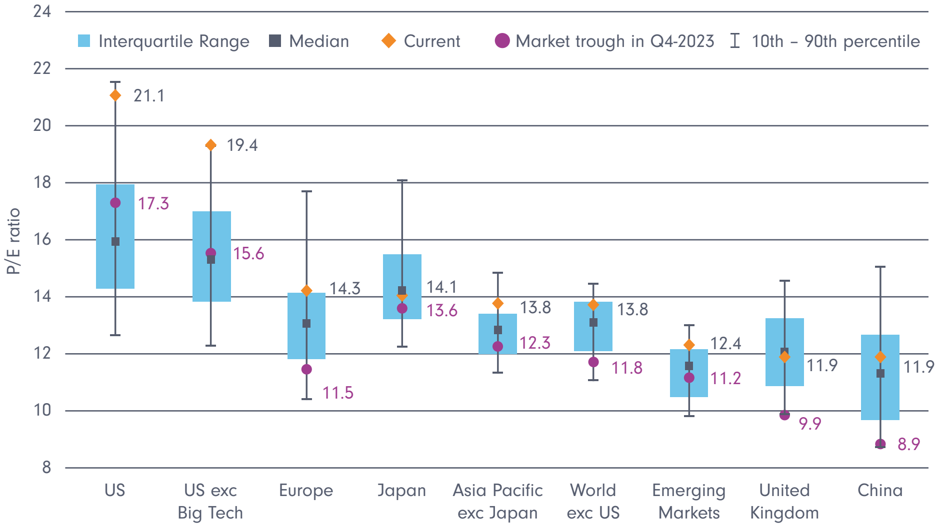
Compared to bonds, too, shares no longer looked as cheap as they became during the pandemic. The implied premium that investors received for taking the greater risk of investing in shares was low by historic standards. With bond yields rising, equities would always have had a harder job to compensate investors for their greater volatility. This was a poor set-up for the tariff shock.

After 16 years of rising shares since the 2009 low, we were clearly in the more mature phase of the bull market. The two big bull markets of the post-war period (in the 1950s and 1960s and then in the 1980s and 1990s) both lasted about 18 years. History does not repeat itself, but it often rhymes.

The downturn in stock markets since the tariff announcement needs to be seen in the context of what had happened in the previous six months. Investors had allowed themselves to become very complacent about the tax cuts and deregulation they expected a second Trump term to bring. In a matter of days the gains that wishful thinking delivered to investors have evaporated. Part of the correction is simply a rewinding of the clock back to a pre-election view of the world.

Markets can be brutally quick to disabuse investors of that kind of over-exuberance. What follows now will depend in large part on how the Trump government responds to the very clear message it is being sent by the markets. Will it reconsider an approach that is widely viewed as first inflationary and then a shock to growth? The early signs are that the President is not for turning. He has held the same views on trade and tariffs for 40 years since he published a full-page newspaper advertisement setting them out

Global valuations



Source: FactSet, Goldman Sachs Global Investment Research, March 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.

in the face of Japan's apparent victory in the economic war of the 1980s.

But Donald Trump measures his success in financial terms. He is a market operator at heart. He will not wish to go down in history as the President who killed the long post-financial-crisis bull market.

In the last quarterly Outlook, I identified three risks for markets in 2025: resurgent inflation leading to higher for longer interest rates; the impact of tariffs on growth; and the concentration of the US market and its inability to survive a derating of the Magnificent Seven. Three months on, those remain the principal concerns for investors.

Market corrections are always a good time to remember that, while share prices go up around two-thirds of the time, that means that a third of the time they go the other way. Navigating the downturns is the price investors pay for the right to enjoy the near 10% long-term returns that stock markets have provided over the past hundred years and more. There is no free lunch in investment. If you want the performance, you have to accept the volatility.

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

United States

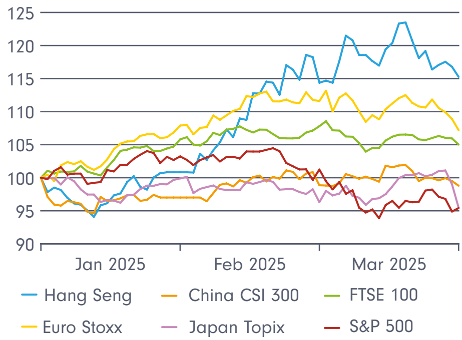
Current view Neutral
3 month change Downgrade

The US stock market tends to lead the pack in both directions. The first three months of the year disguised this fact. From the New Year to the tariff announcement, the S&P 500 had fallen by 5% while Chinese and Japanese shares were broadly flat, the FTSE 100 rose by 7% and Europe by 12%. Meanwhile, Hong Kong's Hang Seng index was up by an impressive 17%.

But normal service has resumed. The US market is at the epicentre of the global downturn, but it is now dragging the rest of the world down with it too. The only thing that might change that revived correlation is a more durable re-assessment by investors of the US exceptionalism narrative. Key to that could be the attitude of foreign investors, who are increasingly influential in US markets. In 1960, foreigners owned just 2% of the US stock market. Today, 18% of US equities are owned by overseas investors.

If the relative performance of non-US markets persuades a meaningful slice of that money to head home, that could deepen Wall Street's woes. For a few reasons, I think that is quite unlikely. First, the US market remains the world's most liquid. The value of the S&P 500 is $48trn, four times the size of Europe's stock markets. Perhaps more importantly, the US offers investors much better long-term growth prospects. Although expectations have been reined in, earnings growth is still forecast at about 7% this year and next in America. Europe's growth is expected to be just 4% and 6% this year and next.

One of the reasons for this is that US companies invest more in growth initiatives than their peers in the rest of the world. And they achieve a better return on that investment. There is a good reason why the US stock market has outperformed its peers. Its corporate sector is more profitable, it is growing faster and, deservedly, is rated more highly. The current policy uncertainty will not last for ever. Having a decent exposure to US stocks continues to make sense, even if you assume that protectionism will be just as damaging, if not more so, to America as it is to the rest of the world. Betting against Uncle Sam is tempting at the moment, when so much of the uncertainty in the world seems to emanate from the US. But it has rarely been a good strategy.



Source: Refinitiv, total returns in local currency, 26.12.24 to 26.3.25

Past performance is not a reliable indicator of future returns. For 5 year figures, see page 6.

United Kingdom

Current view Positive
3 month change Unchanged

The UK stock market has been a long-term underperformer. Since the financial crisis it has lagged global benchmarks, notably the US. By the end of the first quarter, a pound invested in the FTSE 100 15 years ago was worth £1.50 today, the same amount in the FTSE 250 had grown to £2, but the same pound in the S&P 500 was worth £5.

There are many reasons for this. The UK market is less exposed to growth sectors like technology and events like Brexit and the energy crisis have provided a headwind. But a lack of domestic investment in UK shares is an even bigger problem. Just a third of UK shares are owned by home-grown investors. In most markets around the world the equivalent proportion is 50-90%.

Changing regulation is largely to blame. It has reduced the incentive for pension funds and insurers to own British shares. Offloading their holdings to foreign buyers has reduced valuations, making the UK market less attractive to companies seeking a listing, encouraging quoted companies to buy back their shares and to list elsewhere. The poor performance of UK shares has encouraged domestic savers to overweight cash and property. It is a mess that the government is rightly, but belatedly, looking to address.

But what does this mean for investors in the UK today? Arguably it creates an opportunity. The UK stock market is unloved, unfairly so. Every sector in the UK trades at a sharp discount to its equivalent in the US but this contrasts to some other measures of financial health. We score well as a place to innovate and to do business. The venture capital market as a proportion of GDP is bigger here than in Europe. The UK is a great hunting ground for contrarian investors.

As was demonstrated by the recent Spring Statement, the UK economy and public finances are not where they should be. But investing in the UK stock market is not the same as investing in the UK economy. The revenue and earnings exposure of FTSE 100 companies to the US is greater than to the UK. You can think of investing in the UK as a cheaper, back-door way to invest in the global economy – and with a healthy dividend yield of nearly 4% to reward you while you wait for a re-rating.

Europe

Current view Neutral

3 month change Unchanged

Donald Trump had been an unexpected gift to European investors, at least until he lobbed a 20% tariff their way. Three months ago, I commented that it was hard to see what the catalyst might be for a re-rating of European shares. Like their counterparts in the UK, they stood at a historically big discount to the US but that looked to be justified by the region's deep-seated problems – political uncertainty and indecisive policy, tepid demand for exports in places like China and the threat of tariffs in America.

But Trump 2.0 has galvanized Europe like nothing else in the last troubled decade. In response to America's withdrawal from the post-war transatlantic alliance, Germany's parliament has approved incoming Chancellor Merz's plans to reform the country's constitutional debt brake, removing constraints on defence and infrastructure spending and paving the way for a €500bn investment fund worth nearly 12% of German GDP over ten years.

That has completely changed the narrative for European shares. Year to date, European equities have seen inflows of nearly $16bn. The latest Bank of America fund manager survey showed a net 39% of managers saying they were overweight the region, up from 12% in February. It was the biggest overweight since 2021.

Investors need to tread carefully now. Many stocks in the defence and infrastructure sectors now sport punchy valuations. They have risen from the mid-teens to the mid-20s in many cases. They are pricing in a long growth cycle and that makes them vulnerable to impatience from some of the flightier investors who have been jumping on the bandwagon so far this year. The fiscal impulse will not feed through into the real economy immediately and the risk of tariffs casts a long shadow.

Japan

Current view Positive
3 month change Unchanged

Japan has disappointed over the past year, moving sideways overall and with some unsettling volatility last summer. Arguably the flat performance year to date can be viewed as resilient compared to the US's fall, but clearly Europe and China have offered more excitement to overseas investors. In fact, the absence of foreign buyers has been a key factor. Since last summer, cumulative net selling by overseas investors has more than wiped out all the net buying since the start of 2023.

If foreign selling has run its course, then the outlook could be good for the Japanese market because in most other regards the fundamentals look attractive and domestic buying, through the Japanese equivalent of our ISA, is running at high levels. GDP and corporate earnings growth is positive, and the reflation story is still intact. After years of deflation, a healthy level of price growth is welcome in Japan, especially as it is being fuelled by above inflation pay rises. The current spring wage round is expected to see the first overall pay rise of more than 6% in over 30 years.

At the same time the corporate governance reforms in Japan continue. Measures to discourage cross shareholdings and to encourage better awareness of cost of capital and communication with shareholders might all sound a bit dry, but they are transforming the efficiency and profitability of Japanese companies. Disclosure rates have jumped over the past two years.

Meanwhile, Japan remains cheap compared to its own history and versus other markets. The average price-earnings ratio is about 14, a discount of roughly a third to the US market.

Clearly, Japan is vulnerable to Donald Trump's tariffs. Although earnings momentum is positive, the outlook is clouded by downside risks. In particular, the automotive sector is exposed. It is expected that a global auto tariff could reduce Topix earnings by between 2% and 7%. Japan is one of the biggest foreign investors in the US and it has pledged to continue with that. With a similar average tariff rate, it is less obviously vulnerable than some other countries but as a big exporter it would suffer from greater protectionism. Any further appreciation of the yen against the dollar would also be a negative for Japanese corporate earnings.

Asia and emerging markets

Current view Positive
3 month change Upgrade

There's nothing quite like a 25% rally in two months to change perceptions about a stock market. At the start of the year, China was widely viewed as 'uninvestable'. Today it is very much back on investors' radars. There are a few reasons why this is likely to continue.

First, the emergence of DeepSeek as a viable competitor in the AI space has cemented the view that China can innovate and challenge US dominance in this key area. The company has been described as a Pied Piper for investors, which neatly captures the shift in sentiment. At a time when investors are looking for an alternative to the expensive US market and its unpredictable policy backdrop, China suddenly looks like a sensible option again.

Second, domestic regulatory pressures have clearly eased. President Xi's high-profile meeting with business leaders in February showed that it is okay to put your head above the parapet again. That's an important shift in a country where politics is a key consideration for investors.

Third, the earnings outlook appears to be improving, with an uptick in the property market and better consumer confidence. There have been five consecutive months of rising property prices in Tier 1 cities. The market is not out of the woods yet, but it is heading in the right direction, which matters because, depending how you measure it, perhaps half of household wealth is tied up in real estate.

Valuations have risen significantly during the recent rally in Chinese shares, but they are still at the lower end of their five-year range. China still looks good value compared to both the US and other emerging markets such as India.

Obviously, tariffs are a concern. But unlike with some of America's so-called allies, a rise in the effective tariff rate for China has long been priced into Chinese valuations. Also, while China was the primary target in the first Trump term, it is no longer being singled out. The door is open to a negotiated agreement which might see tariffs rolled back. And China is less dependent on direct exports to the US than it was, and has more competitive products today.

Elsewhere in the region, India is on a roll – it is expected to overtake Japan in terms of the size of its economy – but this has been priced into an expensive stock market for some time. With earnings revisions coming down, investors are having to justify today's prices with ever-longer growth forecasts. There is a feeling that the market is overhyped.

Bonds

Current view ∘∘∘●∘ Positive

3 month change ▲ Upgrade

There is a two-way pull in bond markets that reflects a growing fear of stagflation – the unhappy marriage of sluggish growth and persistently high inflation. This is the nightmare scenario for central banks because each element argues for a different policy approach. Falling growth demands lower interest rates but easing policy is hard in the face of upward price pressures.

In the last couple of months, we have seen a big change in the mood music. Optimism about Donald Trump's pro-growth agenda has morphed into concerns about the inflationary and growth impact of tariffs. The tax cuts and deregulation that investors hoped for have been put on the back burner while the President focuses instead on resetting the global trade framework. The glass looks more half empty today as a result.

Concerns are growing about the resilience of consumer spending after a period in which the US economy has consistently surprised to the upside. This is showing up in earnings guidance in consumer sectors – both discretionary and staples – and that is even before the full impact of the DOGE cost-cutting measures kicks in.

Meanwhile inflation is proving hard to control and we are seeing a slowing in service sector disinflation at the same time as reflation on the goods side. Tariffs will inevitably feed straight through to the end consumer.

So, what does that mean for fixed income investors? When it comes to the outlook for interest rates, the direction of travel remains downward but less decisively than hoped. The Fed is rightly sitting on its hands while it waits to see whether the tariff rhetoric is matched by tariff action, and for how long, and how extensively. Same story on this side of the Atlantic. Even if interest rates fall, it is not certain that this will feed through into bond yields as investors also consider the risks of higher bond issuance and inflation.

Corporate bond yields are attractive at the headline level but the gap, or spread, between them and safe government bond yields is historically narrow. This is somewhat surprising when you consider the increasing economic risks in a slowing economy. This is true whether you are looking at higher-quality investment grade corporate bonds or lower-quality high yield or junk bonds.

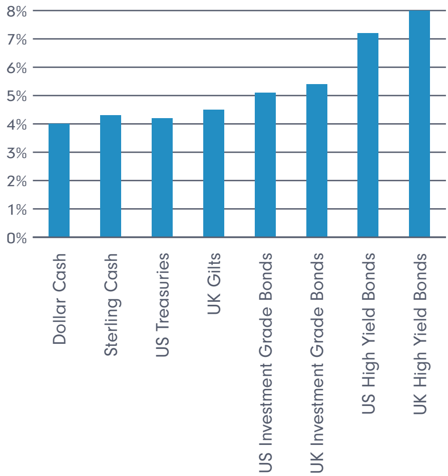
There are two main reasons to hold bonds in your portfolio. The first is that they provide a high and, if you are sufficiently diversified, reliable income. With both US and UK government bonds paying more than 4% to investors and corporate bonds paying between 5% and 8%, depending on the quality of the company and its location, the income available is compelling.

The second reason to have some bonds is that they behave differently from shares. Although the correlation between the two is greater than it has been in the past, there is still a useful element of diversification in a portfolio that holds both asset classes.

This will be particularly noticeable if we do move into a recession. Bonds help smooth your investment journey.

Finally, cash continues to look interesting. Money market, or cash, funds continue to be among the most popular on our platform. Partly this is due to the time of year. Investors who know they should use their generous ISA and SIPP allowances but don't know where to invest can sensibly park their money in one of these funds and earn a decent income while they decide. But for others it is an active choice – an income of nearly 5% is attractive when coupled with almost no risk.

Attractive income



Source: Fidelity International, Bloomberg, JPM and ICE BoA Merrill Lynch bond indices, 28 February 2025.

Past performance is not a reliable indicator of future returns.

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

Gold

Current view Positive

3 month change Unchanged

The gold price recently rose above $3,000 an ounce for the first time and many investors are starting to see the precious metal as a key component of a balanced portfolio. That looks sensible. Gold is traditionally viewed as a safe haven asset, and it performs well at times of heightened uncertainty. It broke through $1,000 an ounce during the financial crisis and through $2,000 at the time of Covid. There are good reasons to believe it will stay above $3,000 now and Goldman Sachs recently upgraded its year-end forecast to $3,300 an ounce.

Two of the biggest drivers of the gold price today are central bank buying and demand from ETF investors. Central bank buying picked up after the freezing of Russian reserves in the wake of its full-scale invasion of Ukraine in 2022. It is estimated that this source of demand could continue for between three and six years before central banks, including China's, reach gold reserves that match developed market allocations.

The appetite for gold from central banks feels like a structural shift, part of a broader diversification strategy than simply a reaction to recent events. So, even if Russian reserves were unfrozen in future, it is unlikely to reduce central bank demand. The freezing in 2022 set a new precedent that showed that Western-held reserves may not be risk-free. Domestically-held gold cannot be frozen or confiscated.

ETF inflows meanwhile are expected to remain strong on the back of heightened uncertainty but also tracking interest rates lower. Falling rates and bond yields reduce the opportunity cost of holding gold, which pays no income.

Two events might provide a headwind to further gains for gold. A Russia-Ukraine peace deal would reduce global geo-political uncertainty and could increase Russian exports, although sanctioned gold is already finding its way out of the country. Additionally, a continued sell-off in equity markets might counter-intuitively see gold retreat if leveraged investors are forced to sell liquid assets to meet margin calls.

But overall, gold continues to look like a good diversifier in a balanced portfolio. There are three principal ways to invest in gold but only two are really practical. The first is to hold physical gold yourself but the storage and insurance costs of doing so mean this is not advisable. A physically-backed exchange traded fund is the simplest and purest way of gaining an exposure to the gold price. Another indirect approach is to invest in gold miners, although this introduces an element of equity risk into the investment.

Source: Refinitiv, gold price in US$, 26.3.20 to 27.3.25

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

The first three months of 2025 have been a reminder that financial markets do not rise in a straight line. Shares have delivered higher rewards than other asset classes over the years but the price for that outperformance is volatility. It is worth remembering that this is not the same thing as risk, which refers to permanent loss of capital rather than the temporary ups and downs of the market.

When markets fall sharply, it is tempting to run for cover, but this is rarely a good approach. The moment to sell passes very quickly and once it has gone the more sensible strategy is to sit tight and wait for a recovery. The superior returns of shares only really accrue to patient investors who hold their nerve through these temporary setbacks.

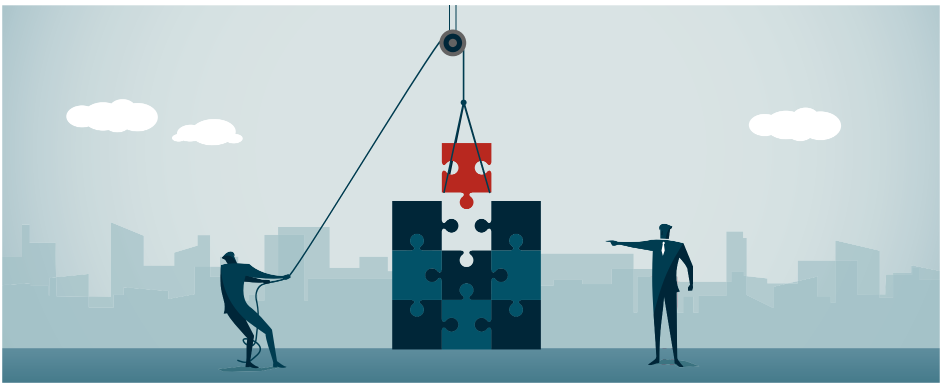
We can all mitigate risk by sticking to tried-and-tested investment principles, such as holding a cash buffer to ensure we are never forced sellers, being well diversified and investing regularly through the cycle. Even if you are seasoned investor, you may benefit from our 'Principles for good investing' hub on the Fidelity website. Search for 'Principles'.

Investors are experiencing a higher than usual degree of uncertainty today. The second Trump Presidential term has seen the new administration moving quickly and breaking things. This is not always a bad thing. Change can be good. But it is unsettling and requires us to focus on our long-term investment goals and avoid trying to second guess either what is likely to happen or how the market is going to react.

It is worth bearing in mind that stock markets are less affected by what is happening in the world than they are by any difference between what is happening and what has already been priced into the market. The fall in the US market, in particular, has underscored how highly-valued markets can be vulnerable to changing circumstances.

The divergent performances of markets shows the importance of diversification and balance in our investments. Without the benefit of a crystal ball, we must protect ourselves by putting our eggs in a variety of baskets.

We wish you well with your investments during the rest of 2025.



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. 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. 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 March)	2020-21	2021-22	2022-23	2023-24	2024-25	Morningstar Fund Rating
Global						
BNY Mellon Long Term Global Equity Fund	28.2	13.0	2.1	17.3	-6.1	✪✪✪✪
Dodge & Cox Worldwide – Global Stock Fund	53.8	15.5	2.8	18.0	3.2	✪✪✪✪
Fidelity Global Dividend Fund	21.4	8.1	4.8	12.3	11.4	✪✪✪✪✪
Legal & General Global Equity Index Fund	39.1	15.6	-3.0	23.0	3.1	✪✪✪✪
Rathbone Global Opportunities Fund	39.5	9.0	-6.6	25.2	3.1	✪✪✪✪✪
Schroder Global Recovery Fund	54.3	9.7	8.5	11.1	5.3	✪✪✪
Vanguard Global Small-Cap Index Fund	62.8	3.5	-3.5	13.2	-2.4	✪✪✪✪

% (as at 31 March)	2020-21	2021-22	2022-23	2023-24	2024-25	Morningstar Fund Rating
North America						
Brown Advisory US Smaller Companies Fund	59.9	-0.6	-0.6	10.6	-9.2	★★★
Brown Advisory US Sustainable Growth Fund	42.6	18.0	-4.0	31.5	-4.5	★★★
Dodge & Cox Worldwide – US Stock Fund	56.9	19.8	-2.0	21.9	6.4	★★★★
Vanguard S&P 500 ETF	40.1	20.9	-2.0	26.8	5.7	★★★★★
UK						
Fidelity Special Situations Fund	46.7	8.7	3.0	11.5	12.5	★★★★★
FTF Martin Currie UK Equity Income Fund	26.3	14.6	3.7	4.0	9.1	★★★★
iShares Core FTSE 100 ETF	21.9	16.0	5.3	8.2	11.7	★★★★
Liontrust UK Growth Fund	22.6	13.2	3.2	7.3	0.9	★★★★
Vanguard FTSE 250 ETF	44.9	0.4	-7.9	8.5	0.8	★★★★
Europe						
Barings Europe Select Trust	-	-4.3	-1.1	5.8	-3.4	★★★
Schroder European Recovery Fund	54.2	7.7	15.7	5.0	5.9	★★
Vanguard FTSE Developed Europe ex UK ETF	34.4	6.1	8.1	13.2	3.3	★★★★
Asia and emerging markets						
Fidelity Funds – Asian Smaller Companies	58.2	5.6	8.9	7.5	-0.7	★★★★
Fidelity Responsible Emerging Markets Equity Fund				-3.0	-2.3	-
iShares Core MSCI Emerging Markets ETF	44.8	-5.5	-4.6	7.1	4.5	★★★★
Lazard Emerging Markets Fund	35.7	1.7	0.5	13.8	8.7	★★★★★
Schroder Oriental Income Fund	50.0	0.8	-0.3	4.9	7.6	★★★★
Stewart Investors Asia Pacific Leaders Fund	40.7	4.0	-1.7	4.6	-0.7	★★★★
Japan						
Baillie Gifford Japanese Fund	43.5	-8.5	-5.4	8.4	-2.3	★★
iShares Core MSCI Japan ETF	25.3	-3.2	1.5	20.2	-2.7	★★★★
Schroder Japan Trust	40.7	0.5	2.4	28.3	-1.5	★★★★

The Select 50 is liable to be changed between publication dates for the Investment Outlook. The next Select 50 update will be in May 2025. For the most up-to-date list please visit fidelity.co.uk/select

% (as at 31 March)	2020-21	2021-22	2022-23	2023-24	2024-25	Morningstar Fund Rating
Bonds						
AXA Sterling Credit Short Duration Bond Fund	5.6	-1.6	-1.1	6.6	5.1	★★★
Colchester Global Bond Fund	-2.6	-2.9	-1.9	-4.3	-0.7	★★★
iShares ESG Screened Overseas Corporate Bond Index Fund	1.1	-1.1	-1.1	3.0	2.6	★★★★
iShares Overseas Government Bond Index Fund	-10.1	-2.6	-2.8	-2.8	-0.4	★★★★★
JPM Global High Yield Bond Fund	22.3	0.1	-5.6	9.4	7.7	-
Legal & General Emerging Markets Government Bond Index Fund	0.7	-3.6	5.4	2.7	1.0	★★★
M&G Corporate Bond Fund	10.9	-4.6	-7.8	7.5	2.3	★★★★
M&G Emerging Markets Bond Fund	10.0	-3.2	5.1	10.1	3.1	★★★★★
Royal London Short Duration Global Index Linked Fund	5.4	4.7	-3.0	2.6	4.3	★★★★
Vanguard Global Short-Term Bond Index Fund	1.9	-3.4	-1.5	3.8	5.5	★★★★
Alternatives						
First Sentier Global Listed Infrastructure Fund	19.8	13.7	-5.5	-0.3	14.5	-
International Public Partnerships Limited	12.9	7.5	-12.4	-9.3	-3.5	-
iShares Environment and Low Carbon Tilt Real Estate Index Fund	22.2	20.4	-18.9	6.3	1.2	★★★
iShares Physical Gold ETC	-4.7	19.4	8.0	9.7	37.4	-
Legal & General Cash Trust	0.0	0.0	2.2	5.1	5.0	-
Ninety One Diversified Income Fund	14.3	-1.2	-1.2	4.3	4.8	★★★★
Ninety One Global Gold Fund	18.4	29.0	-7.2	-6.1	45.6	★★★★
Pyrford Global Total Return Fund	8.5	4.0	1.2	4.4	5.0	★★★★★

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 31.3.20 to 31.3.25. 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