INVESTMENT OUTLOOK

Fidelity Personal Investing's market and investment view

In this issue:

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ISAs | Pensions | Funds | Shares | Advice

Fidelity INTERNATIONAL

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Outlook **at a glance**

Current view: ✓ Positive — Neutral ✗ Negative

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

Asset classes	Current view	3 month change	At a glance
Shares	—	▶	After a strong recovery, the jury is out on whether this is a new bull market or just another bear market rally.
Bonds	✓	▶	Yields are high and investors can look forward to a capital gain too as and when interest rates start to come down again.
Property	✓	▲	The price adjustment in real estate now reflects the reality of the new higher yield environment.
Commodities	—	N/A	The long-term case for owning commodities is currently being undermined by fears of recession.
Cash	✓	▶	Cash plays a dual role today. Dry powder in case of a market correction and now a source of income too.

Regions	Current view	3 month change	At a glance
US	—	▶	After a strong run, there are reasons to think that the US may lose its leadership during the rest of the year.
UK	—	▼	The UK market is cheap but inflation is sticky and rising interest rates threaten a recession.
Europe	✓	▶	Investor enthusiasm for Europe has moderated, but it remains cheap with a decent growth outlook.
Japan	✓	▶	Despite strong performance, the case for Japan remains: growth, reflation, positive reforms… and it's still cheap.
Asia Pacific ex-Japan	✓	▶	China continues to be a drag but elsewhere there is good value and both short and long-term reasons to be positive.

Tales of the unexpected

The first six months of 2023 have been a great advertisement for diversification. The worst performer among the assets we track in the chart on page five has fallen by 15% while the biggest riser is up more than 30%. All that in just half a year – and impossible to predict ahead of time.

It's been a period of continuously changing expectations, too. Let's recap. January started positively, with hopes high that 2023 would see falling inflation, a peak in interest rates and a boost to global economic activity as China emerged from the pandemic. There has been disappointment on all three fronts.

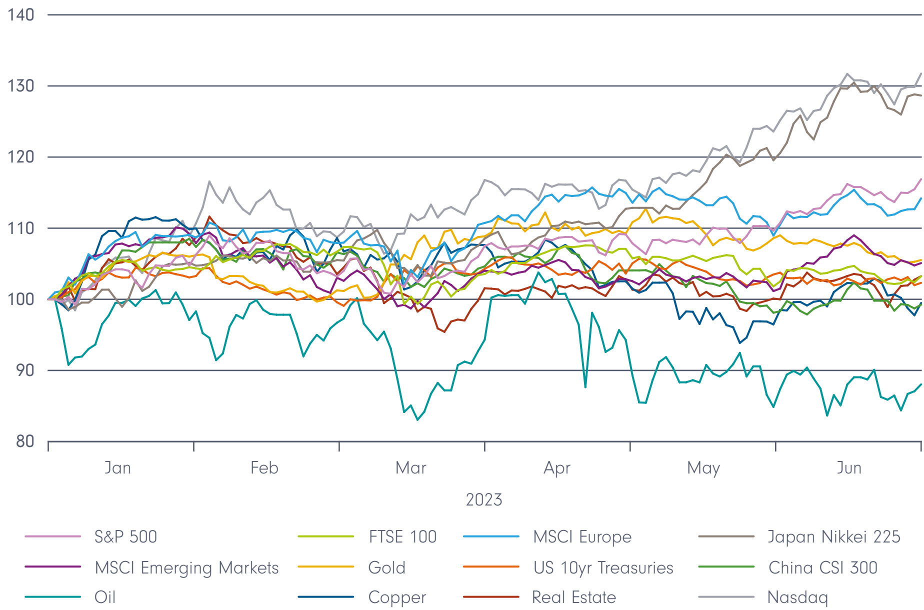
February brought a dose of realism from the Federal Reserve, and other central banks, warning us that with inflation proving less transitory than hoped we should expect the cost of borrowing to remain higher for longer. In March, the consequences of that started to show up among America's regional banks. A mini credit-crunch looked a possibility for a while and investors sought out the safe havens of gold and money market funds.

Since April the divergence between the winners and losers has been extreme. The pessimistic view of the world has been well captured by a sliding oil price, which now stands 40% lower than a year ago. A bellwether of global demand, the cost of crude is painting a negative picture of the outlook for both the world's leading economies, America and China.

Chinese shares are lower than they started the year despite the initial wave of excitement as three years of pandemic restrictions abruptly came to a close at the end of 2022. As expectations have continued to moderate, the ripples have spread around the world. European shares have lost their mojo in the second quarter as prospects for exports to China have diminished. The world's leading emerging economy looks permanently scarred by its traumatic pandemic experience.

With the interest rate peak being pushed ever higher and further out, the expected recovery for bonds has been postponed. After last year's 16% decline, the sideways drift in the first half of 2023 has been a disappointment. But the longer the Fed's pivot is delayed, and the higher rates rise, the greater the interest in fixed income from yield-chasing investors. Bonds are back on the radar.

Meanwhile, the UK's moment in the sun last year ran into the sand as our weighting towards commodities and energy stocks looked less interesting than it did after the invasion of Ukraine. Persistently high inflation and sluggish growth are worrying reminders of why investors should be wary of home bias in their portfolios.



Source: Refinitiv, total returns in local currency, 1.1.23 to 30.6.23

Past performance is not a reliable indicator of future returns. When investing in overseas markets, changes in currency exchange rates may affect the value of your investment. Investments in emerging markets can be more volatile than other more developed markets. There is a risk that the issuers of bonds may not be able to repay the money they have borrowed or make interest payments. **For full 5 year figures, see page 7.**

But there's been good news for investors, too. The Nasdaq index has led the charge all year, with only a pause for breath in February on the Fed's hawkish turn. The key driver has been investor excitement about the prospects for generative artificial intelligence. In truth, the benefits of AI are unproven, and the positive story is limited to only a handful of stocks. You have to go back to the dot.com bubble to see a comparable example of the US market being driven higher by such a narrow subset of companies.

Elsewhere, Japan has defied the sceptics, benefiting from a positive cocktail of good news – the end of deflation, emergence from Covid, a raft of corporate reforms, strong earnings growth and a still cheap stock market. For those of us who have been banging the drum about Japan for years, the resurgence in interest in this out of favour market is long overdue.

New bull or bear market rally?

The S&P 500 moved into a technical bull market in the second quarter, but it is hard to believe this is the real deal when 490 of the benchmark's constituent companies have basically gone sideways year to date. A real bull market will need to broaden out significantly. And for that to happen, fears of a recession must be put to bed, earnings must bottom out and start to grow again, and the Fed will need to pivot from fighting inflation to supporting the economy. There are lots of ifs in that analysis.

The outlook for shares is uncertain but for the first time in many years, investors have other options. For the longest time, it really did look like there was no alternative. Today, rising yields make bonds, cash, money market funds, even property worth a place in a balanced portfolio. It may not make investing any easier, but being spoilt for choice is a good problem to have.

And within the equity market, too, there are many opportunities. The US may look highly valued in the face of a possible recession, but other markets around the world are far less stretched. Japan, Europe and some emerging markets, too, look good value.

Hopefully, the rest of this report will provide some insight into the opportunities across the main asset classes and geographical regions. Just as things were unclear at the start of the year, so they are today. And the best defence against uncertainty is, as always, balance, diversification and avoiding the temptation to try and time the market.

(as at 30 June)	2018-19	2019-20	2020-21	2021-22	2022-23
S&P 500	10.4	7.5	40.8	-10.6	19.6
Nasdaq	7.5	26.6	49.3	-12.1	-0.6
FTSE 100	1.6	-13.8	18.0	5.8	9.2
MSCI Europe	2.6	-6.3	35.8	-17.1	22.6
Nikkei 225	-2.6	7.0	31.3	-6.5	28.6
MSCI Emerging Markets	1.6	-3.1	41.4	-25.0	2.2
Gold	12.1	25.7	-3.9	1.3	6.2
Oil (WTI Crude)	-18.3	-56.9	75.9	64.6	-22.5
US 10yr Treasuries	10.8	16.7	-4.9	-11.4	-3.4
China CSI 300	11.5	11.3	27.7	-12.4	-12.2
Copper	-9.7	0.4	55.7	-11.7	0.8
Real Estate (S&P Global REIT)	10.1	-15.0	36.1	-9.8	-1.9

Source: Refinitiv, total returns in local currency as at 30.6.23

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Acknowledgements – The views in this report are derived from a variety of sources within and outside Fidelity International. They are based on the house view of the Fidelity investment team and other sources. However, the report is written for a UK personal investing audience and the ideas are explicitly linked to our Select 50 list. We consider this the best way for our investors to implement the ideas discussed in this Outlook. We would like to thank, in particular: Wen-Wen Lindroth, Neil Cable, Steve Bramley, Jeremy Osborne, Gary Monaghan, Leigh Himsworth, Jeremy Podger, Ayesha Akbar and Natalie Briggs.

Asset classes and world stock markets

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

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

The risk-return spectrum

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

Shares

Current view — Neutral | 3 month change ▸ unchanged

Stock markets have enjoyed a strong first half in 2023. The S&P 500 index is up by 14% in six months, clawing back a little more than half of what it lost last year. But it has been a narrowly focused rally. Within the US market, the heavy lifting has been done by just a handful of large technology shares; elsewhere on Wall Street, and in much of the rest of the world, the recovery looks more anaemic.

The weakness of shares in 2022 was understandable. Interest rates rose faster and further than many investors expected. This year's rally is harder to explain. It is premised on one interesting, but unproven, growth story in Artificial Intelligence. And it is counting on earnings bouncing back in 2024 after a modest decline this year, with central banks playing their part by pivoting back to supportive policy after declaring job done on inflation.

The consensus view of earnings is supportive. The expectation is that profits will fall in the low single digits in 2023 and then rally by 10% or more next year. That is possible but it requires continued top-line growth from companies which may prove difficult to achieve as inflation retreats. Consumer demand might fade quickly too as strong fiscal support goes into reverse and monetary policy remains tight.

On top of that, the resolution of the debt ceiling crisis has opened the door to a wave of bond and bill issuance by the US government. It's not altogether clear where the money to pay for this will come from, but to the extent that it comes from bank reserves, that drain on liquidity could provide a headwind for equity markets. Finally, the increase in interest rates has created many plausible alternatives to shares. Bonds, cash and money market funds all offer increasingly competitive income with less uncertainty.

This is the pessimistic view of the equity outlook for the rest of the year. A more optimistic take assumes that the recovery in the market since the low point last October is simply too strong to be just another bear market rally. Typically, these counter-trend recoveries run out of steam when they have clawed back around half the previous fall. We are now well above 60% and the recovery is spreading out to the wider market, too – another good sign that we might be in a new bull market.

Timing market turns is anyway hard to do and the long-run case for owning shares in a diversified portfolio is irrefutable. Anyone with a medium to long-term investment horizon is going to want an exposure to what has historically been the best performing of the major asset classes.

The Select 50 has a strong list of global equity funds, run by excellent managers with good long-term performance records. We have growth and value-focused funds, low-cost trackers, income options and investment trusts.

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

Bonds

Current view ✓ Positive | 3 month change ▶ Unchanged

At the beginning of the year, we thought we were approaching the peak in the monetary policy cycle, and that interest rates would start to fall in the second half of the year. That turning point has been pushed progressively further out and the expected peak level of rates nudged higher.

At the same time, the economic slowdown, even recession, that higher interest rates were expected to cause has failed to arrive. The jobs market and wages continue to be strong and inflation persistent. It has been a difficult environment for bond investors.

But just because recession has not arrived yet, we should be careful not to assume that it won't in due course. In fact, the longer central banks persist with their policy of aggressive tightening, the greater the risk of a hard landing.

There is, in addition, the likelihood that liquidity will be drained away as the US Treasury issues bonds and bills now that the debt ceiling has been lifted. The chances of the economy hitting the buffers later this year or early next are rising.

To what extent is this priced into bonds? Not really, we think, particularly in the riskier parts of the corporate bond market. High yield bonds currently assume that default rates will be less than 5%. The historical evidence suggests this is too optimistic.

Investors do not really need to take fixed income risks right now. Government bonds are offering a decent yield, with the realistic possibility of a capital gain, too, as interest rates come down again in the face of a slowing economy and rising unemployment. Investment grade corporate bonds offer a better risk/reward balance than high yield.

Maintaining our positive stance on bonds overall, we would temper it with a call to be selective. Err on the side of defensiveness, with a weighting away from company specific risk in high yield and towards interest rate sensitivity in investment grade and government bonds. The markets have priced out the chance that interest rates will soon fall again. That looks like an opportunity.

At the start of the year, we flagged the **Colchester Global Bond Fund**, a portfolio of government bonds from around the world. That still looks like a good way to play the current dynamics in the bond market.

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

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

Property

Current view ✓ Positive | 3 month change ▲ Upgrade

In a rising interest rate environment, investors have found it hard to justify the low rental yields offered by real estate. The good news for investors today is that the price adjustment needed to bring those yields up to a more competitive level has now happened. Prices in many cases are 15-25% lower than their peak.

In addition to this valuation question, two further things matter when assessing the real estate market today: the supply/demand balance and the direction of travel for interest rates.

When it comes to supply and demand, it is important to distinguish between different markets. Here in Europe, unusually, the current cycle has not seen excessive development and, combined with a relatively low tenant default rate, that has created a healthy supply/demand balance. This is particularly the case when it comes to modern buildings that meet increasingly stringent environmental regulations. In the US, it is a very different story. Vacancy rates are much higher, and this is dragging up the global average and leading to much of the negative sentiment around the property sector.

A vacancy rate of 5-10% is required for a healthy property market. At this level, landlords are able to demand higher rents and tenants are prepared to pay up. Once the vacancy rate rises above about 10%, this positive dynamic breaks down and prices need to adjust. In Europe, the vacancy rate sits in the sweet spot. In America it is currently above 20%.

The bigger risk for real estate today is interest rates. If rates are close to peaking, the price adjustment so far is probably enough. Investors can start to think positively about increasing exposure to a market which offers high yields with the likelihood of rental increases from here. However, if persistently high inflation forces central banks to squeeze harder, the downswing may well have further to go.

As with the bond market, the odds are improving for property investors, and we are shifting to a more positive stance. However, selectivity is key. On the Select 50, the **Balanced Commercial Property Trust** is UK-focused and an investment trust, which is a better vehicle for real estate investment than an open-ended fund. It currently trades at a very wide discount to net assets of nearly 40% and offers a dividend yield of more than 6.5%, which is not guaranteed.

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

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

Commodities

Current view ▶ Neutral | 3 month change N/A

Commodity prices have been volatile over the past three months, underlining the cocktail of competing influences on oil and both industrial and precious metals. There are long-term reasons to hold some commodities in a diversified portfolio, but attempts to time these markets are fraught with risks.

Gold has had a difficult three months, retreating from close to its all-time high in March during the banking sector turmoil, as the prospect of a peak in interest rates has receded. As rates rise, the opportunity cost of holding the precious metal, which pays no income, increases. Talk of higher for longer interest rates has, therefore, reduced the attraction of gold to investors, despite its safe haven appeal at times of uncertainty.

Gold can act as a diversifier in a balanced portfolio. It behaves differently to mainstream assets like shares and bonds and helped smooth returns during last year's correction. It has also held its value over time, particularly in inflationary periods. But it is volatile and is best seen as a buy and hold asset that should account for a relatively small proportion of an investment portfolio. The Select 50 offers two ways to gain an exposure to gold. The **Ninety One Global Gold Fund** invests in gold miners while the **iShares Physical Gold ETF** offers a more direct exposure to the price of the metal.

Turning to industrial metals, the copper price has also experienced a two-way pull recently. The long-term argument for having an exposure to copper is its crucial importance to the net zero story. The metal is used widely in electric vehicles, renewable power and infrastructure upgrades. In the short-term, however, the price reflects expectations for economic growth. Between November last year and January the price of copper rose by around a quarter on hopes for a rapid rebound in activity in China. As those expectations have been reined in this year, the price has fallen back again.

The ebb and flow of supply and demand has also been at work in the most important commodity market of all – oil. As with gold and copper, it's been a period of drift and the price stands 40% lower than a year ago. Again, there is little point in trying to second guess the direction of travel for the oil price, which at any one time combines traders' views on a wide range of factors such as the outlook for economic activity and the impact of changes in interest rates on demand. On the other side of the equation, the extent to which big suppliers like Saudi Arabia are prepared to open the taps is a key input.

Whether or not you choose to invest in commodities, it is worth keeping an eye on prices for the guidance they can provide on the outlook for economic activity and inflation. That's the main reason we continue to track them here.

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

United States

Current view — Neutral | 3 month change ▶ Unchanged

Much of the argument for shares as an asset class can also be applied to the US. That's not surprising, as Wall Street accounts for well over half the value of global stocks. However, there are some market drivers that are more country-specific and it's helpful to focus on these.

The first question is whether the aggressive actions of the Federal Reserve will drive America into recession. The jury is very much out on this. For now, the labour market remains very strong, unemployment is low, wages are growing, and inflation is falling. However, there is always a lag in the application of monetary policy and the central bank is aware that it may already have done enough to get inflation back under control.

The second question is how this will feed through into earnings. Again, the consensus right now is that this year's modest decline in profits will reverse next year. Whether or not the economic landing is hard or soft is key here because history shows that recessions are usually associated with earnings declines at least in the double digits.

The third US-specific question relates to the narrow leadership of the US stock market rally since last October. The US market is dominated by big technology stocks. Their outperformance is the principal reason that Wall Street has outperformed its peers in the years since the financial crisis.

If you strip out this year's near 50% rise in the shares of the biggest seven companies in the index the rest of the market looks less impressive. The other 493 stocks have gone sideways in the first six months of 2023. Some of the leaders' performance is attributable to investors' enthusiasm for all things AI-related, but most is about the expectation that interest rates are close to peaking. If they don't, the rally's foundations will look shaky.

Finally, we cannot ignore the yawning gap between US stock market valuations and those in the rest of the world. The average price-earnings multiple on Wall Street has risen from 15 to 19 during the recent rally. Again, that is quite reasonable if earnings and interest rates are supportive. If not, the differential between the US's valuation and those in Japan, Europe, the UK and China feels too wide.

So, it is hard to recommend more than a neutral weighting towards US shares today. We think there are better options than the US but are loath to go very underweight. As and when interest rates do start to come down again, those big tech stocks might stay out in front.

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

United Kingdom

Current view — Neutral | 3 month change ▼ downgrade

The UK was a bright spot in global markets in 2022. The composition of the FTSE 100 suited last year's difficult environment for equities. We have almost no exposure to the big growth stocks that bore the brunt of rising interest rates and we are over-indexed to the commodities and energy shares that performed well after the invasion of Ukraine.

This year has looked very different. Tech has had a resurgence while the UK has reverted to being a market unhelpfully focused on yesterday's winners. Meanwhile, the sticky inflation that's impacting the whole developed world, looks a lot worse here than elsewhere. Pretty much every month, the Office for National Statistics finds a way to disappoint expectations. Most recently, the headline rate got stuck at 8.7%, more than four times the Bank of England's target, while the core rate that excludes volatile measures like energy and food actually rose to 7.1%.

No surprise in the circumstances that the Bank felt obliged to hike interest rates by a bigger than expected half a percentage point. It now looks like, with the government's tacit approval, Threadneedle Street is looking to get the mortgage pain out of the way quickly before next year's likely general election. Another half point rise is likely in August and then a final quarter point hike in September for a 5.75% peak. The gloomiest forecasts point to a 6.25% end point.

With all this, the chance of a recession rises significantly, so it is unsurprising that the more domestically focused FTSE 250 has underperformed badly, down 20% over the past two years compared to a 4% rise over the same period for the blue-chip FTSE 100. It is interesting to note that the pound rose only briefly on the Bank's hawkish turn. Sterling is starting to reflect the likelihood of a sharp downturn, as is the yield curve in the bond market which is steeply inverted. This, too, suggests trouble ahead.

The silver lining for investors in the UK is that our domestic market is now cheaper than any major market other than China. A price-earnings ratio that's barely into double digits may not mean much if earnings drop in a recession, although that is not the current expectation for the FTSE 250 anyway. A dividend yield of over 4% is, however, a meaningful support. And arguably a multiple of less than 6 for the UK's banks is overstating the scale of problems ahead, notably in the housing market.

International investors have voted with their feet, with significant cumulative outflows since the start of last year. That, together with valuations, may well be a good contrarian signal, especially for the out of favour mid-cap index. But it feels early to be overweighting our home market.

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

Europe

Current view ✓ Positive | 3 month change ▶ Unchanged

The market's enthusiasm for Europe has moderated over the course of the second quarter, but the region's shares are still on a par with the US year to date. The recent drift is partly a reflection of deteriorating sentiment towards China, where the post-Covid rally has disappointed. Europe is a big exporter to China and was a beneficiary of the excitement about the country's re-opening at the end of last year and into the first quarter of 2023.

It's still possible to make a strong case for investing in Europe despite slowing market momentum. Economic activity continues to improve, with rising service sector growth offsetting less impressive manufacturing which has been particularly noticeable in the region's engine room, Germany. Economic growth is feeding through into strong earnings revisions, which have been ahead of those in other markets including the US, Japan and Emerging Markets.

Inflation has also started to roll over, with lower energy prices dragging the headline rate lower. As in both the US and UK, the biggest concern is the core rate which largely reflects wage increases. And it is this figure that the ECB is focused on. Central bank president Christine Lagarde has made it clear that she will keep pushing rates higher until this underlying rate is seen to be heading back to target. Goldman Sachs expects this to be the case by early next year and predicts a peak for European interest rates of 4% in September.

Another reason to be positive on Europe is valuation. Although not as cheap as the UK, European shares stand at a big discount to those in the US. In fact, improving earnings expectations have seen the gap between the two widen. A fall in the inflation rate to below 3% has historically justified a valuation of between 13 and 14 times earnings, usefully ahead of today's level of around 12. The yield on European shares is not far below the UK's.

The biggest risks to European shares are that energy prices rise sharply again next winter and that the ECB squeezes too hard. But with real wages likely to be positive again soon as inflation subsides, and on a historically and relatively cheap valuation, the positive case for Europe remains intact. **Comgest Growth Europe Fund** is the Select 50's growth option, with **Schroder European Recovery** the value play.

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

Japan

Current view ✓ Positive | 3 month change ▶ Unchanged

Japan has been one of 2023's success stories. Its performance in the first half of the year is right up there with the AI-fuelled Nasdaq. And speaking to our colleagues in Tokyo, it is clear that interest in this long-overlooked market continues to rise. Overseas investors have been net buyers of Japanese shares throughout the second quarter. The Topix index stands at a 30-year high.

As we have pointed out before, Japan has been a good place to invest for many years. Since the Abenomics reforms of a decade ago, the Japanese market has kept pace with the S&P 500, easily outpacing other markets such as our own FTSE 100.

Despite the rise so far this year, there remains a strong case for investing in Japan as part of a well-diversified portfolio. Cyclical reasons to be positive include the country's delayed recovery from Covid, fast-improving domestic demand, positive trends in inbound tourism, rising earnings revisions and still cheap valuations.

There is a good longer-term case to be made, too. Japan has shaken off its long deflationary slump and sits in a sweet spot of modest inflation where rising wages encourage consumption. Most importantly, Japanese businesses, among the most conservative in the world, are being encouraged to work their assets harder, to put cash to work, improve returns on assets and support the interests of shareholders. There is still plenty of work to do, with many Japanese companies sitting on huge cash piles and trading below the value of their assets.

In the short-term, the numbers are moving in the right direction. GDP is accelerating with both services and manufacturing expanding. Leading indicators are positive as supply chains improve and cyclical businesses like factory automation are picking up. Earnings revisions are trending higher, helped by lower input costs and a weak yen.

This good news story is not yet fully priced into share prices, however. The valuation multiple of the Japanese market is lower than its long-term average and significantly cheaper than in the US. Not viewed historically as a dividend paying market, Japan now has a higher yield than the global average. At the same time investors are benefiting from a high level of share buybacks.

Of course, there are risks. Japan remains exposed to a global recession. Geographically, it is vulnerable to deteriorating geo-political tensions. But these are priced in. There is no reason for a balanced portfolio not to have an exposure to Japan. The Select 50 has three good options: a low cost tracker, and growth and value-focused actively-managed funds.

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

Asia and emerging markets

Current view ✓ Positive | 3 month change ▶ Unchanged

It is hard to separate Asia and Emerging Markets from China, which dominates the investment landscape in the same way that Japan did 30 years ago before it was removed from the regional indices. It may well be that something similar will be necessary if the rest of the region is to emerge from China's shadow.

So far this year, China's influence has been negative. After a burst of excitement at the end of 2022 when China emerged from Covid, the recovery has run out of steam. Three years of pandemic restrictions have left a scar and $1.5trn of excess savings in the country are yet to be put to work. Everyone is waiting for further stimulus, but the government seems disinclined to help.

The ongoing tension between the US and China, each other's most important trading partners but also biggest rivals, continues to damage sentiment. Of the two, China looks to be the bigger loser, and this is reflected in stock market valuations which stand at a significant discount to their long-term averages.

Investors should see the current lull as an opportunity. The long-term attractions of emerging markets are unchanged. Developing countries account for 70% of the world's population, 40% of its economic output and 60% of its growth. Emerging market growth in both 2023 and 2024 is forecast by the IMF to be three times that of the developed world.

Look beyond China, too, and there are plenty of opportunities. India is not obviously as cheap as China, but its long-term trends are superior. Its expanding middle class promises years of growth for consumer-facing stocks and banks, for example. It will also be a major beneficiary of the so-called China + 1 outsourcing strategy with which many companies are looking to de-risk their supply chains.

Something similar is happening in Korea and Taiwan. The reluctance of Western technology companies to include Chinese components in their products is boosting sales at the likes of Samsung Electronics. The recent surge of interest in Artificial Intelligence has massively boosted the share price of US stock Nvidia but largely ignored Taiwan's TSMC, which is a key supplier to the American company.

On a relative basis, emerging markets look interesting. Developing countries were quicker than their more developed counterparts to raise interest rates and so have less of an inflation problem. Outside of China, emerging markets have a much stronger fiscal position than they did 10 years ago.

The Select 50 has a comprehensive spread of Asia and Emerging Market investment options that includes low-cost trackers, income-focused funds and growth portfolios targeting both smaller and larger companies.

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

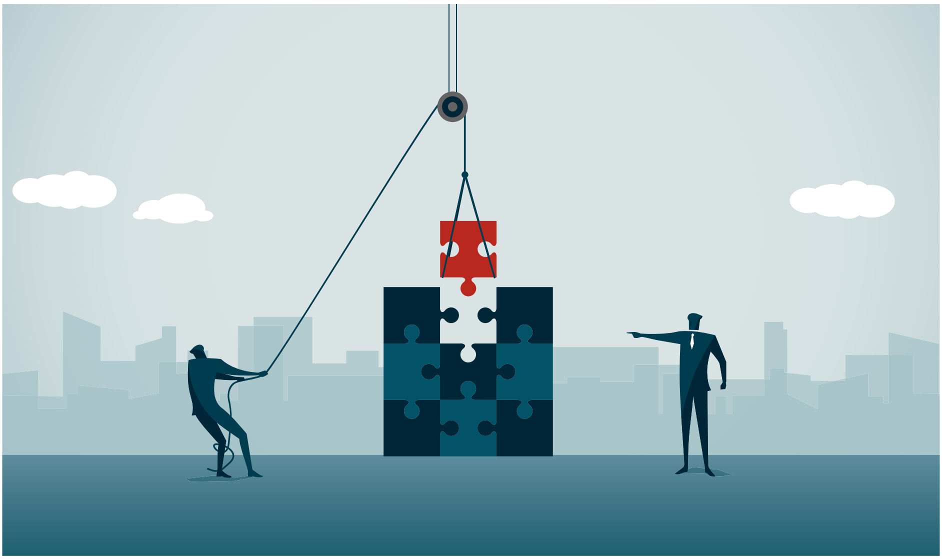
In summary

The first half of 2023 has been difficult to navigate. Many assumptions have been overturned in the last six months. Things have not turned out as we expected, or at the very least the timing has surprised us.

The outlook is uncertain, as it always is in real time. But today it feels more than usually unclear. Equities have done better than maybe we feel they should. The positive returns we forecast for bonds have been postponed. Commodities are all over the place. It's not yet clear whether the shake-out in commercial property has run its course.

When it comes to different regions, valuation has seemingly gone onto the back burner as a driver of performance. The US is expensive but has stayed out in front. The UK may be cheap, but it has remained so. China looks good value but the catalyst for change looks elusive.

This is an interesting time to be an investor. We are spoilt for choice, with more growth and income options than we have been used to. The Select 50 remains a great source of funds to play the many themes at work in the markets today. I hope this Outlook will help you to use the list more effectively in the months ahead.



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The Select 50:
Our favourite funds – selected by experts

With thousands of funds to choose from, building your portfolio can be a real challenge but Select 50 can help you choose from the range of funds available on our website. For more information on how these funds are selected visit fidelity.co.uk/select. The Select 50 is not advice or a personal recommendation to buy funds. Equally, if a fund you own is not on the Select 50 we're not recommending you sell it. You must ensure that any fund you choose to invest in is suitable for your own personal circumstances.

Please be aware that past performance is not a reliable indicator of what might happen in the future. The value of investments and the income from them can go down as well as up, so you may not get back what you invest. For funds that invest in overseas markets, the returns may increase or decrease as a result of currency fluctuations. Investments in small and emerging markets can be more volatile than other more developed markets. For funds launched less than five years ago full five-year performance figures are not available.

Standardised performance data (%) over the past five years

% (as at 30 June)	2018-19	2019-20	2020-21	2021-22	2022-23	Morningstar Fund Rating
Asia and emerging markets						
Comgest Growth Emerging Markets Fund	6.3	-4.2	13.5	-27.1	3.1	✪✪
Fidelity Funds – Asian Smaller Companies	6.0	-14.9	41.5	-0.5	6.9	✪✪✪✪✪
HSBC MSCI All Countries Far East ex Japan ETF	1.7	6.3	22.6	-17.7	-8.1	✪✪
iShares Core MSCI Emerging Markets ETF	4.7	-1.9	28.0	-14.2	-0.5	✪✪✪✪
Lazard Emerging Markets Fund	6.2	-12.9	25.1	-7.9	8.7	✪✪✪✪
Schroder Oriental Income Fund	14.0	-11.4	26.2	-2.3	3.0	✪✪✪✪
Stewart Investors Asia Pacific Sustainability Fund	7.2	1.9	26.4	-6.4	4.2	✪✪✪✪✪

% (as at 30 June)	2018-19	2019-20	2020-21	2021-22	2022-23	Morningstar Fund Rating
Bonds						
AXA Sterling Credit Short Duration Bond Fund	1.8	1.1	2.7	-4.3	-0.4	★★★★
Colchester Global Bond Fund	-	6.6	-7.0	-5.5	-4.3	★★★
iShares Global Corporate Bond ETF	11.9	8.9	-6.0	-5.7	-2.0	★★★
iShares Global Government Bond ETF	9.5	8.1	-10.8	-4.6	-7.2	★★★
JPM Global High Yield Bond Fund	5.5	-2.6	15.4	-11.9	5.9	-
Legal & General Emerging Markets Government Bond Index Fund	12.4	0.0	-6.0	-7.0	5.6	★★★
M&G Corporate Bond Fund	6.1	5.1	3.8	-12.5	-4.0	★★★★
M&G Emerging Markets Bond Fund	15.6	2.5	-2.7	-8.7	10.3	★★★★★
M&G Global Macro Bond Fund	9.1	11.7	-8.3	-3.6	-3.9	★★★
Royal London Short Duration Global Index Linked Fund	3.2	2.8	4.2	-0.7	-0.9	★★★★
Vanguard Global Short-Term Bond Index Fund	2.8	2.5	0.5	-4.9	-0.4	★★★★
Europe						
Comgest Growth Europe ex UK Fund	10.6	13.2	22.6	-10.2	22.2	★★★★
Schroder European Recovery Fund	2.7	-17.9	32.7	-0.4	18.5	★★
Vanguard FTSE Developed Europe ex UK ETF	7.6	0.3	22.7	-10.7	19.2	★★★★
Global						
BNY Mellon Long Term Global Equity Fund	16.7	7.1	19.4	-5.0	16.7	★★★★★
Dodge & Cox Worldwide – Global Stock Fund	4.9	-6.4	37.5	4.3	8.3	★★★★
Edinburgh Worldwide Investment Trust	7.1	35.9	37.2	-51.5	-18.9	★★
Fidelity Global Dividend Fund	17.8	5.0	10.4	0.3	9.9	★★★★
Fidelity Global Special Situations Fund	7.5	8.4	23.8	-6.0	10.3	★★★★
Rathbone Global Opportunities Fund	9.4	19.3	24.4	-17.5	17.2	★★★★★
Schroder Global Recovery Fund	5.7	-19.4	40.5	2.7	12.1	★★★
Vanguard FTSE All-World ETF	8.9	4.7	24.9	-4.2	11.4	★★★★
Japan						
Baillie Gifford Japanese Fund	0.4	4.7	18.0	-18.7	6.1	★★★
iShares Core MSCI Japan ETF	-1.4	5.8	10.5	-9.4	12.7	★★★
Schroder Japan Growth Fund	-11.2	-3.1	22.4	-6.2	21.1	★★★

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

% (as at 30 June)	2018-19	2019-20	2020-21	2021-22	2022-23	Morningstar Fund Rating
North America						
Brown Advisory US Sustainable Growth Fund	-	-	24.9	-8.4	15.7	★★★
Dodge & Cox Worldwide – US Stock Fund	7.1	-4.9	41.4	3.9	6.8	★★★★
T.Rowe US Smaller Companies Equity Fund	15.8	9.0	32.3	-7.9	9.4	★★★★
Vanguard S&P 500 ETF	13.1	9.5	26.6	1.4	13.7	★★★★★
Alternatives						
Balanced Commercial Property Trust	-22.3	-41.3	50.6	28.3	-37.2	-
First Sentier Global Listed Infrastructure Fund	13.1	-7.3	14.4	3.6	-1.0	-
International Public Partnerships Limited	8.9	17.8	3.9	1.9	-16.5	-
iShares Environment and Low Carbon Tilt Real Estate Index Fund	11.4	-13.2	19.7	-1.4	-8.8	★★★
iShares Physical Gold ETC	16.8	29.2	-11.3	16.3	1.3	-
Ninety One Diversified Income Fund	3.9	0.5	7.8	-6.6	3.2	★★★★
Ninety One Global Gold Fund	21.9	50.8	-19.3	-3.7	4.5	★★★★
Pyrford Global Total Return Fund	2.3	2.3	3.4	2.0	0.2	★★★★★
UK						
Fidelity Special Situations Fund	-2.9	-19.6	36.0	-1.5	5.7	★★★
FTF Franklin UK Equity Income Fund	2.8	-11.5	19.1	3.8	5.2	★★★★
iShares Core FTSE 100 ETF	1.4	-13.8	17.9	5.7	9.0	★★★★
Liontrust UK Growth Fund	3.0	-10.2	18.0	1.7	5.4	★★★★★
Vanguard FTSE 250 ETF	-4.0	-10.1	33.2	-14.7	1.8	★★★★

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

Source: Morningstar from 30.6.18 to 30.6.23. Basis: bid to bid with income reinvested in GBP. Excludes initial charge. The fund's primary share class according to the IA is shown. For the latest yields please call 0800 41 41 61 or visit fidelity.co.uk

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

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

Personal financial advice

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

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

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

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

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