INVESTMENT OUTLOOK

Fidelity Personal Investing's market and investment view

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- The case for emerging markets
- Why the bull can keep running

July 2024

ISAs | Pensions | Funds | Shares | Advice

Fidelity INTERNATIONAL

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Important information – the value of investments and the income from them can go down as well as up, so you may not get back what you invest. 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. 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. Reference to specific securities should not be construed as a recommendation to buy or sell these securities and is included for the purposes of illustration only. Investors should also note that the views expressed may no longer be current and may have already been acted upon by Fidelity. This information is not a personal recommendation for any particular investment. If you are unsure about the suitability of an investment you should speak to one of Fidelity's advisers or an authorised financial adviser of your choice.

Outlook **at a glance**

Current view: ●○○○○ – 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	○○○●○	▶	Falling inflation and interest rates, robust earnings and reasonable valuations make the case for continuing to favour equities.
US	○○●○○	▶	US outperformance has been justified by superior growth. But it has left the market expensive ahead of an uncertain election.
UK	○○○●○	▶	The UK is becoming a beacon of stability in an unstable world. It is cheap and offers a combination of growth and income.
Europe	○○●○○	▼	Europe's fundamentals remain attractive, but its politics is volatile and exposure to international trade is a short-term headwind.
Japan	○○●○○	▼	Japanese shares have paused for breath as investors assess a string of headwinds. But the long-run case for the Tokyo market is intact.
Asia and emerging markets	○○○●○	▶	Emerging markets are unloved. But good policy, an improving outlook in China and stronger commodities make them worth a second look.
Bonds	○○○●○	▶	With the turn in the interest rate cycle approaching, government bonds look better value than overbought corporate credit.
Alternatives	○○○●○	▶	Investors looking to diversify their portfolios are spoilt for choice today, with both gold and copper offering uncorrelated returns.
Cash	○○○●○	▶	The attraction of cash remains the same. A combination of dry powder, coupled with a positive inflation-adjusted income.

Diversification is back

Tom Stevenson
Investment Director

One of our foundational investment principles is diversification. Putting your eggs in a variety of baskets makes intuitive sense. Investing in a wide range of asset classes, sectors and geographical areas should be expected to provide investors with a smoother ride over time. If one part of the market is struggling, another will be doing better.

In reality, however, diversification has not delivered in recent years. During the zero-interest-rate era after the financial crisis, market performance became increasingly concentrated – by style (growth), by sector (technology), by size (mega cap) and by region (the US). The most successful investors were those who went all in rather than hedging their bets.

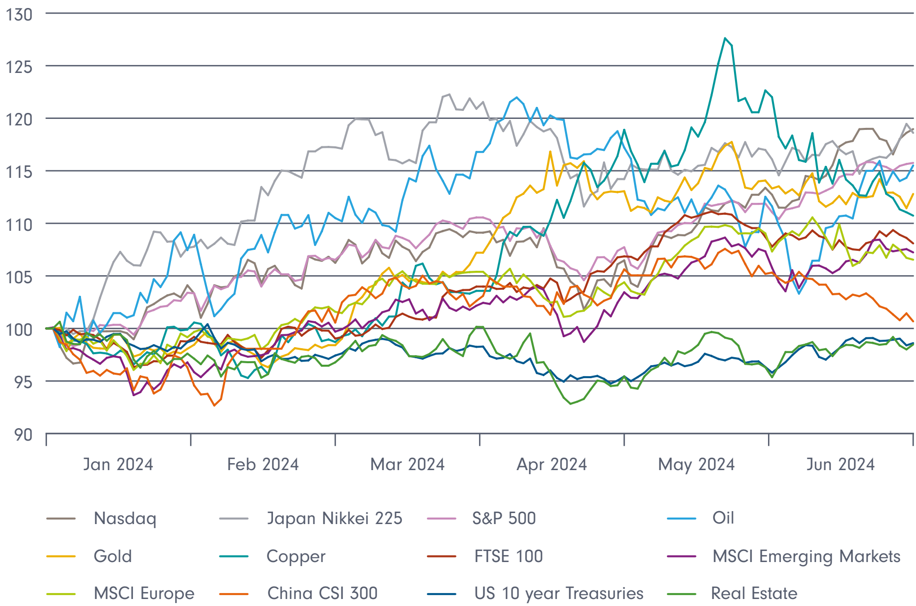
It would be nice to think that this was irrational. But, in truth, it simply reflected diverging profit growth – and makes sense with the benefit of hindsight. Large American growth stocks, especially in tech, performed better and they were rewarded by the market. This explains why, despite the remarkable rise in some share prices over the past decade or so, valuations have so far stayed within reasonable bounds. We have not yet experienced the irrational exuberance of the dot.com bubble.

The valuation gap between the winners and losers has widened over time, however. This reflects investors' tendency to extrapolate the past into the future and to assume that current trends will persist. That starts to put in place the conditions for a shift in relative performance away from the recent winners and back to the underperformers. But it is not enough by itself. For a meaningful rotation to occur, the fundamentals also need to change.

Arguably this started to happen in 2022 when the era of rock bottom interest rates came to an end. Finally, we started to see a broadening out of profitability, and for a period market leadership changed. Between 2010 and 2020, the Magnificent Seven in America and their non-tech equivalents in Europe – the Granolas – carried all before them. From 2022 to 2024, it was time for a different set of companies – value stocks such as energy companies and banks – to have their moment in the sun.

So far in 2024 we appear to have moved into a new phase in which the binary divides of style, sector and geography have blurred. Goldman Sachs calls this a 'Pick and Mix' market in which large US tech stocks have performed alongside US utilities and European banks. Investors have started to spot value in cheaper markets like Japan, Europe and the UK. Dividend payers have come back into favour.

The key drivers of growth in the global economy in the years ahead are likely to reinforce this more diversified source of returns. That's because the AI revolution will improve returns in the technology space but at the same time will demand a major



Source: Refinitiv, total returns in local currency, 1.1.24 to 30.6.24

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

increase in power and a build out of physical infrastructure. Same story with clean energy and electrification – high tech but at the same time resource intensive.

Diversification is also likely to involve more than just a balance between equities and bonds. These can be uncorrelated, but at times (as in 2022) they can also move in tandem. A broader set of assets, marching to different beats, is likely to make sense going forward.

This is an exciting time to be an investor because there will be many ways to the top of the mountain in the years ahead. This will involve technology but will also be supportive of many left-behind value sectors. At the same time, the benefits of AI and cheap energy will spill over into other parts of the economy, just as the internet has brought widespread productivity gains over the past 30 years or so.

So, diversification matters again. Putting your eggs in many baskets will pay off because predicting how a revolution will evolve is impossible. The US will continue to be a leader, but other regions will play their part too. Technology will do well alongside other companies that can deliver consistent earnings growth. Growth and value will both have a place in a balanced portfolio.

Half-year scorecard

The first six months of 2024 have been kind to investors. Equities have moved higher in almost all regions while bonds and cash have continued to offer investors a valuable income alternative. Inflation has fallen impressively – back to target in the case of the UK. Rate cuts have started in Europe and are imminent in both the UK and US.

That's been a favourable environment in which to be fully invested and sentiment has remained positive without, in most cases, stretching valuations too far. Red lights are not yet flashing. Earnings growth is picking up the baton from the valuation re-rating.

In the year to date, as the chart on the previous page shows, equities have continued to lead the way. Within that, the US remains out in front. If you exclude China, most other regions are clustered around a low double-digit return, which is impressive in a six-month period, especially one that followed a year as strong as 2023. The rally since the October 2022 low has been powerful.

The underperformers have been interest rate sensitive fixed income investments – bonds and property. The wait for the anticipated monetary policy pivot has been frustrating as the economy has held up better than anyone expected. The good news, however, is that investors are being paid to wait. Bonds, property and cash are paying a positive real income to investors, increasing the value of their investments in inflation-adjusted terms. At the same time, they provide ballast to a portfolio ahead of any slow-down next year as higher-for-longer interest rates finally start to bite.

2024 Fund Picks

The performance of our fund picks during the first half of 2024 has mirrored the market, and confirms the importance of diversification. Six months is, of course, too short a time to judge these recommended funds, but for the sake of transparency we present them here.

Given the ongoing risk appetite of investors this year, it is not surprising that the two global equity funds have continued to perform well. Pairing the **Fidelity Global Dividend Fund** with the **Legal & General Global Equity Index Fund** was deliberate. The holdings of the two could not be more different, with the tracker heavily exposed to the US tech story and the Fidelity fund more European in flavour, with an emphasis on sustainable income. Holding both funds continues to make sense.

The **Fidelity Cash Fund** was picked to deliver a steady performance in an environment where cash savings offer a positive inflation-adjusted return.
The progress to date is consistent with a return of approaching 5% for the year as a whole, so the fund continues to make a useful contribution in a balanced portfolio.

In particular, it has offset the modest decline in the value of the **M&G Global Macro Bond Fund**. While disappointing, this fund's performance is not surprising given the way in which the interest rate pivot has continually been kicked down the road this year.
One reason to hold bonds in a portfolio is to provide some insurance against share price falls and this fund continues to do that with its go-anywhere, global remit.

(as at 30 June)	2019-20	2020-21	2021-22	2022-23	2023-24
S&P 500	7.5	40.8	-10.6	19.6	24.6
Nasdaq	26.9	45.2	-23.4	26.1	29.6
FTSE 100	-13.8	18.0	5.8	9.2	12.8
MSCI Europe	-6.3	35.8	-17.1	22.6	12.4
Nikkei 225	7.0	31.3	-6.5	28.6	21.5
MSCI Emerging Markets	-3.1	41.4	-25.0	2.2	13.0
Gold	25.7	-3.9	1.3	6.2	20.6
Oil (WTI Crude)	-38.3	82.4	52.7	-35.2	16.0
US 10yr Treasuries	16.7	-4.9	-11.4	-3.4	-0.7
China CSI 300	11.3	27.7	-12.4	-12.2	-7.7
Copper	0.4	55.7	-11.7	0.8	13.6
Real Estate (S&P Global REIT)	-15.0	36.1	-9.8	-1.9	6.3

Source: Refinitiv, total returns in local currency as at 30.6.24

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 M&G Global Macro Bond, L&G Global Equity Index and Fidelity Global Dividend funds 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 M&G Global Macro Bond Fund and Fidelity Global Dividend Fund invest in emerging markets, which can be more volatile than other more developed markets. The Fidelity Global Dividend Fund invests in a relatively small number of companies so may carry more risk than funds that are more diversified. The M&G Global Macro Bond Fund invests in bonds, where 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. Due to the greater possibility of default an investment in a corporate bond is generally less secure than an investment in government bonds. The fund also invests in sub-investment grade bonds, which are considered riskier bonds. They have an increased risk of default, which could affect both income and the capital value of the fund investing in them. There is no guarantee that the investment objective of any index tracking sub-fund will be achieved. The performance of the L&G Global Equity Index sub-fund may not match the performance of the index it tracks due to factors including, but not limited to, the investment strategy used, fees and expenses and taxes. The L&G Global Equity Index Fund has, or is likely to have, high volatility owing to its portfolio composition or the portfolio management techniques. The value of shares in the Fidelity Cash Fund and the L&G Global Equity Index Fund may be adversely affected by insolvency or other financial difficulties affecting any institution in which the fund's cash has been deposited. An investment in a money market fund is different from an investment in deposits, as the principal invested in a money market fund is capable of fluctuation. The 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 Positive | 3 month change Unchanged

For the first six months after the market low last October, it seemed as if the rally might finally be broadening out. The dominance of the big US tech stocks was less obvious and the other 493 stocks in the S&P 500 kept pace with the Magnificent Seven. We commented three months ago that a less concentrated market made the gains feel more sustainable.

So, it is slightly concerning that the most recent quarter has seen a reversal of that trend. Since March, the five biggest US stocks – the Fab Five? – have continued to power ahead, up more than a tenth in just a few weeks, while the rest of the market has gone slightly backwards. The bull market looks as dependent as ever on a handful of strong performers.

The wider market looks to be taking on board the prospect of higher-for-longer US interest rates and is starting to factor in a slowdown as we move towards 2025. The best performing sectors are the defensive ones – utilities and consumer staples – while the cyclical areas like materials and industrials have fallen behind. It is reasonable to be concerned. One of the extraordinary features of the past two years has been the ability of the American economy to shrug off an aggressive monetary tightening cycle. Higher rates must surely bite at some point and the economic data are pointing that way now.

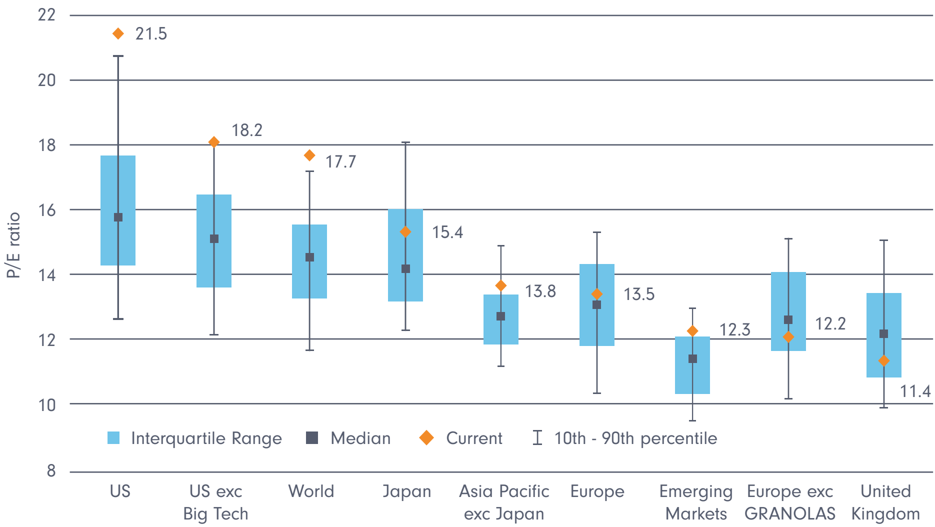
The good news is that the outperformance of tech stocks still feels largely justified by fundamentals. The rise in share prices reflects superior profits growth as it has throughout the past few years. Nvidia, for example, routinely exceeds expectations at its quarterly results. More broadly, earnings continue to be supportive of a continuing bull market, with profits expected to grow in the low double digits this year and next.

This means that while US valuations are high, they have not suffered from the irrational exuberance that characterised previous bubbles. And if we strip out the best performers, the wider US market and others around the world do not look expensive, as the chart from Goldman Sachs on the next page confirms.

The second half of the year will likely be dominated by the run in to the US election now that the votes in the UK and France are behind us. Elections matter a great deal to individuals and businesses. In particular, they can have a significant influence on our personal financial situation. As we saw in India and Mexico, they can also have a dramatic short-term market impact if results are unexpected. But crunching the numbers on 60 years of UK parliaments and even longer over the pond suggests that investors are well advised to tune out the political noise when it comes to their portfolios.

What matters more than the colour of the party in power is the starting point for markets, and what is going on in the global economy. Investing is much less domestically focused than it used to be. How the AI and clean energy revolutions evolve is likely to have a much bigger impact on our investments in the long run than the often fairly insubstantial policy differences between

Global valuations: some markets cheaper than others



Source: FactSet, Goldman Sachs Global Investment Research, June 2024. 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. GRANOLAS refers to the following stocks: GlaxoSmithKline, Roche, ASML, Nestle, Novartis, Novo Nordisk, L'Oreal, LVMH, AstraZeneca, SAP, Sanofi.

the main parties. Whoever wins, they will face the same economic and fiscal challenges.

A bigger driver of markets in the short term will be the trajectory of interest rates, which in turn will be determined by the path of inflation. Here in the UK, prices have come back under control in an impressive way. At the end of 2022, we were an inflation outlier in the wrong way, with prices rising at more than 11% a year. Today, we are back at the 2% target and the Bank of England will soon be able to cut the cost of borrowing, with the Fed unlikely to be far behind.

So, the short-term outlook is encouraging. Falling inflation, lower interest rates, positive real yields, wages ahead of inflation but not spiralling out of control. Longer term, too, I think there are good reasons to be positive. We don't know exactly what the impact of artificial intelligence will be, but its proponents believe it represents a potential step change in productivity and profitability. Along with the ongoing energy revolution, I think it can extend what is already a long bull market by historic standards.

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United States

Current view Neutral | 3 month change Unchanged

The last 15 years have seen an unprecedented divergence in the performance of the US stock market and many of its international peers. This has been rational. It is a response by investors to a more successful economy and faster-growing earnings. US exceptionalism has reflected an exceptional US.

However, the outperformance has resulted in US valuations blasting out of the top of their long-run range. The US is expensive, not just compared to its peers but compared also to its own history. We know that there is an inverse correlation between starting valuation and subsequent returns, so it makes sense to be cautious.

In the short run the US market will be supported by rising earnings. They can pick up the baton from higher valuations. Longer term, too, there are good reasons to maintain an exposure to the US. The AI revolution will disproportionately benefit American companies. The resilience of the US economy to two years of sharply higher interest rates is testament to the strength of Uncle Sam.

But the second half of the year faces two potential headwinds. The Federal Reserve is showing no enthusiasm for cutting the cost of borrowing. Interest rates may stay higher for longer. And the Presidential election in November creates the potential for volatility, whatever the outcome.

United Kingdom

Current view Positive | 3 month change Unchanged

The UK has endured a decade of political instability. The result of the recent election has been the predictable consequence of that painful journey.

But our analysis of stock market returns over the past 60 years suggests that the colour of government is not so important. The best periods for UK investors are evenly distributed between Labour and Conservative administrations. Another conclusion that we can draw is that stable government, with a solid parliamentary majority is a positive for investors.

The outlook for the UK stock market is better than it has been for quite some time. A focus on investment, economic growth and improving productivity would provide a solid backdrop to a market which is cheap by historic standards and offers investors a good combination of growth and income. A government with a ten-year change programme is unlikely to take silly risks in the short term.

The economic fundamentals are challenging. The government faces tough choices and operates within fiscal constraints. As a country we would like European levels of spending but American levels of taxation. Squaring that circle will be hard. But there are positives, too. Inflation is under control. Wages are rising in real terms. Investors can earn a real return again. Economically and politically, Britain is reassuringly boring.

Europe

Current view ●●◉●● Neutral | 3 month change ▼ Downgrade

Until President Macron announced a surprise snap election in France, European equities had enjoyed a strong start to the year. Overseas investors had started to return to the region, attracted by its relatively low valuations and the prospect of the ECB leading the way in terms of monetary policy easing. Renewed political uncertainty has brought that recovery to an end.

The fundamentals in Europe are solid. Inflation has fallen and the ECB has already started cutting interest rates. Earnings growth is pencilled in at around 8% this year and 11% in 2025. Meanwhile, valuations are undemanding. Shares trade at around 13 times expected earnings.

In the short term, the sensitivity of European equities to international trade could be problematic. That is in addition to the obvious political noise closer to home thanks to the shift towards a more nationalistic politics in many EU member states.

But it's easy to focus on Europe's structural challenges and forget that it has many fantastic companies, operating on a global stage. It has some strong sectors (healthcare, luxury goods, industrials). And its revenues are very widely dispersed, making it a good way to gain exposure to, for example, India or China, with respectively cheaper valuations and better governance.

Japan

Current view ●●◉●● Neutral | 3 month change ▼ Downgrade

The Japanese market has drifted in the second quarter, as a string of headwinds suggests that investors had got a bit ahead of themselves. During the market rally since October 2022, Japan has been one of the top performers, up there with the US, and it has, perhaps reasonably, paused for breath.

Prominent among the headwinds has been the continuing weakness of the yen. Traditionally a positive for Japanese share prices, as it helps exporters, the currency is now threatening the domestic economy. Another challenge facing Japanese investors is the likelihood of rising interest rates. Were these a reflection of a stronger economy, these might be viewed favourably, but they are instead being seen as just a defensive move to support the currency.

Valuations are the final headwind. Japan was one of the world's cheapest markets, but its recent stronger performance has put it in the middle of the pack globally. This is doubly the case because these same overseas investors have been stung by the falling yen, which has wiped out their gains in some cases.

Longer term, there is a strong case for investing in Japan. Positive factors include the apparent end of 30 years of deflation, including stronger income growth in the latest wage negotiation round. Also encouraging is the ongoing progress in terms of corporate governance. Companies are increasingly shareholder friendly, raising dividends and implementing share buybacks.

Asia and emerging markets

Current view ◦◦◦●◦ Positive | 3 month change ▶ Unchanged

The last 15 years or so have seen a major de-rating of emerging market shares. Multiples are below the levels reached during the financial crisis in 2008. Relative to developed markets, which have re-rated significantly over that period, the underperformance is even more dramatic. Emerging market equities represent just 5% of global funds compared to 13% in 2010. The reasons are well-known: dollar strength; China; and less risk appetite in a turbulent world.

So, what might the catalysts be for a return to favour for emerging markets? There are three main drivers, we think. The first is focused on inflation and interest rates. Here emerging markets are very different from how they were in years gone by. They were quick to respond to inflationary pressures and raised rates fast. Getting on top of inflation has allowed them to start cutting rates ahead of developed market central banks and with high real rates there is scope to cut further as and when the Fed starts its own easing. They will be helped in this by a vastly improved fundamental backdrop, with lower borrowings at both the corporate and consumer level, including less dollar-denominated debt, healthier current account balances and more foreign exchange reserves.

The second positive driver for emerging markets is what is happening in China. It represents around 30% of the emerging market index and the weakness of Chinese shares has weighed heavily on this investment class in recent years. In large part this has been due to the country's fragile property market which, directly and indirectly, accounts for up to 30% of Chinese GDP. The good news is that government policy has shifted recently to reflating that market. It will be a slow process, but the worst is over. At the same time, we are seeing tentative signs of recovery in other parts of the economy, such as high-end manufacturing and strategic industries like semiconductors. Chinese companies are also starting to put shareholders first with big share buyback programmes and growing dividends. All of this while Chinese shares trade at a big valuation discount even to cheap markets like the UK.

The third tailwind for emerging markets is the outlook for commodity prices, in particular those like copper which stand to benefit in the long run from the yawning mismatch between rising demand and falling supply. Copper is a vital input for a range of clean energy technologies, from electric vehicles to solar, wind and other renewable electricity networks. This is leading to an expected doubling in demand for copper over the next 15 years or so. At the same time, supply is constrained. There are few copper mines in operation and miners are having to dig deeper. It can take up to 12 years to bring a new mine into operation. The next few years will see a growing supply deficit, and this is likely to lead to higher prices, which is good news for exporting economies like Peru and Chile.

Of course, there are exceptions. India is one of the most popular markets in the world, valued as highly as the US. But overall, emerging market shares are out of favour and cheap. Earnings growth is significantly higher than in the developed markets and valuations are much cheaper.

Bonds

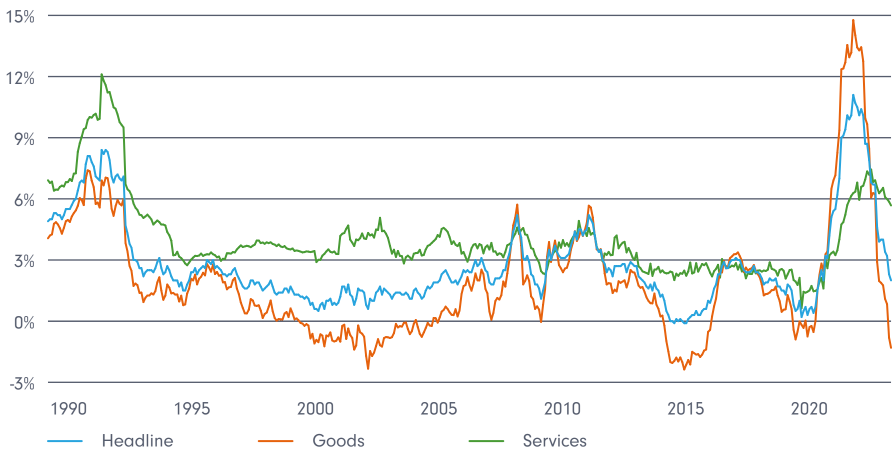
Current view Positive | 3 month change Unchanged

Central banks are winning the battle with inflation. Here in the UK, the rate of price rises has fallen back to target less than two years after inflation peaked at a 40-year high of 11.1%. In Europe and the US, the final mile is proving harder to navigate, but the post-Covid spike is in the rear-view mirror here too.

You might expect this to be feeding through quickly into lower interest rates but, quite rightly, central banks are erring on the side of caution. History shows that calling the all-clear too soon can have painful consequences down the track if inflation resumes. In particular, the Bank of England is focused on the discrepancy between the headline rate of inflation, back down to 2.0%, and wage and services inflation which are running at 6% and 5.7% respectively. As the chart below shows, the drop in inflation is all about falling energy and food costs – other parts of the inflation calculation remain sticky. As the year-on-year goods price inflation data become less favourable, persistent services inflation will take on greater significance in the headline figure.

The Federal Reserve meanwhile is watching the jobs market closely too. Unemployment is nudging higher but remains low by historic standards. Job creation is still robust. We think the most investors can expect is one quarter point rate cut this year and there may be none at all. This makes it hard for other central banks to move too aggressively for fear of undermining their currencies, and the Bank's monetary policy committee is split. The ECB's cut in June may not open the floodgates to further easing.

UK Consumer Price Index (CPI) – 12 month percentage change



Source: Refinitiv, 13.1.89 to 15.5.24.

Beyond interest rates, the other factor influencing bond yields is political uncertainty in the run up to November's US Presidential election. Neither candidate is exactly a 'sound money' fanatic and the US's fiscal deficit – spending is running 7% ahead of tax revenues – is likely to be increasingly in focus in the months ahead. Funding pressures may keep long-term real rates higher than expected as the US heads towards a $1trn a year interest bill on its borrowings. All in all, the new normal for interest rates and bond yields may be lower than the recent peak but we are very unlikely to return to the rock bottom levels we reached in the post-financial-crisis period.

So, the wait for the interest rate pivot goes on. And with it the wait for any capital gain from government bonds. The attraction of fixed income remains its yield, together with the portfolio diversification it provides. The silver lining of a higher-for-longer environment, of course, is that investors are being paid to wait. Bonds, like cash, continue to be a good source of positive inflation-adjusted income.

Corporate bonds – spread too thin

When it comes to corporate bonds, investors just can't get enough. Inflows to credit funds are in full flood as investors try to lock in attractive yields in a higher-for-longer rate environment. And because company bonds are in such demand, investors are having to accept an unusually low yield uplift to compensate them for the extra risk compared with lending to a safe government.

The measure of this premium is called the 'spread' and it is historically tight. This is particularly so for longer-dated corporate bonds which would normally offer an even higher yield. Pension funds and insurers who like to buy assets with a long maturity to match their liabilities are chasing yield just like everyone else. The assumption is that, in a robust economy, big companies don't represent a significantly greater risk to your capital than a government that can print its own currency. That theory might get tested in a recession.

This might be even more of a problem at the riskier end of the corporate bond market – high yield or so-called junk bonds are also trading on low spreads. But with more companies being upgraded from high yield to investment grade than are moving in the other direction, no-one seems particularly worried. That may be reasonable because most companies do not seem to be struggling with their debt burdens. The New York Fed measures what it calls 'corporate bond market distress'. Currently its index stands at a very low level by historical standards.

Bonds provide attractive income and diversification benefits. But at the current level of spreads, government issues look like they offer a better risk/reward balance than corporate credit.

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

Alternatives

Current view Positive | 3 month change Unchanged

Gold has come off the boil after a surge to a peak of over $2,400 in May. A pause for breath after the near 50% rise since the end of 2022 should not surprise anyone, not least because in a higher-for-longer interest rate environment the opportunity cost of holding the precious metal is significant. It pays no income, so passing up the 5% safe return on cash is a real sacrifice.

The fact that gold is still riding high despite that headwind suggests there are some powerful forces driving the price upwards. One of these is thought to be heavy buying by China, which is using the metal as a way of diversifying its reserves away from the US currency.

A second driver is gold's perceived role as a protection against any decline in the value of the dollar as the currency reacts to America's huge budget deficit. Thirdly, there has been a significant increase in the number of institutional investors who are raising their exposure to gold. A recent survey by the World Gold Council reported 85% of managers having some kind of gold allocation, up from 69% in 2018.

This despite more than half thinking that gold tends to underperform other assets. In reality, it has delivered an 8% average annual return over a 25-year period.

The other commodity to be in focus at the moment is copper, a metal that was thrown into the limelight when BHP launched an unsolicited bid for Anglo American, partly on the back of its copper reserves. It is unsurprising that attention should be focused on this most ubiquitous of raw materials. Copper is a key input in many of the growth industries of the near future, from renewable energy generation to electric vehicles and even AI, thanks to the massive data centres that will require.

It is one of the great ironies of the clean energy revolution that the solution requires huge investment in what looks like the problem. Electric cars require six times as many minerals as conventional vehicles. This is going to lead to a massive upsurge in demand for the metal in the next 20 years or so.

And what we also know for certain is that the supply of copper is going to fall short. Copper production is highly cyclical. To make it worthwhile for producers, the price is likely to need to rise considerably, even from its two-year high of approaching $10,000 a tonne.

As with gold, there are different ways to invest in copper. Directly in the metal itself via an exchange traded fund or indirectly via the miners. Both are likely to be volatile. But in the long run, I expect the supply/demand mismatch to drive a significant re-pricing.

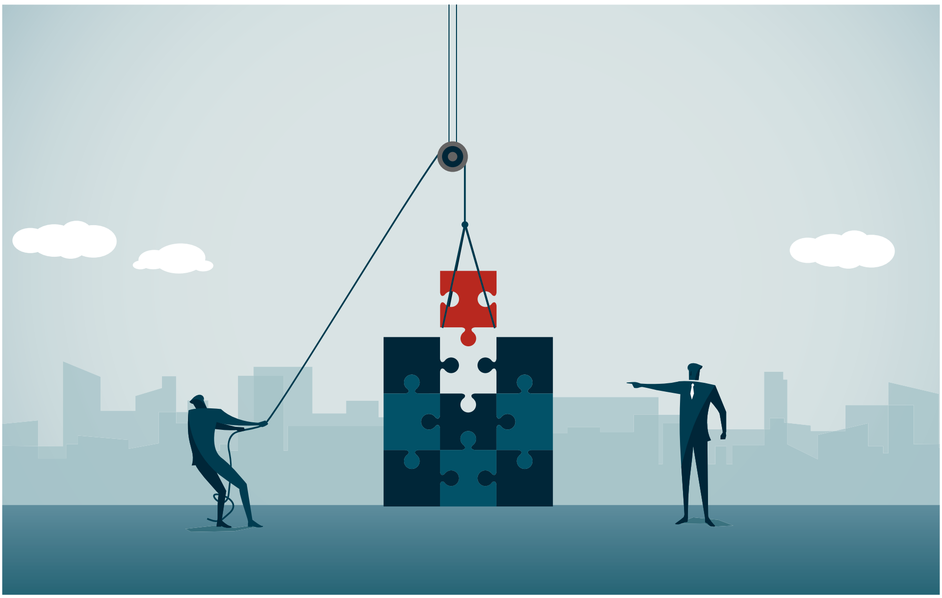
For a brief video update on alternatives, scan the QR code or visit **fidelity.co.uk/investmentoutlook**

In summary

Markets seem to be in a sweet spot at the moment – always a worry! The economy seems to be landing softly, earnings growth is robust, inflation is under control, interest rates appear to have peaked. And while there are some pockets of exuberance, a case can be made to justify investors' enthusiasm. The valuation of technology stocks reflects superior growth; India really does have a bright future.

The higher-for-longer interest rate environment also has an upside for investors. It has been many years since there has been an alternative to investing in equities. But today bonds, cash, commodities, gold, property and shares all have a role to play in a balanced portfolio. The big stories that will drive markets in the years ahead will play out across investment styles, asset classes and geographies. Diversification does look like being the only free lunch in investment once again.

Of course, the time to be concerned as an investor is when you can't see a cloud in the sky. That is another reason to ensure your portfolio is well spread. Tracker funds, in particular, can give investors a false sense of security. They can be heavily weighted to one style or region. Now is a good time to look under the bonnet and make sure you really understand what you are invested in. Make sure you don't suffer from hidden concentration that might leave you exposed to a change in sentiment or reversion to the mean.



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 30 June)	2019-20	2020-21	2021-22	2022-23	2023-24	Morningstar Fund Rating
Global						
BNY Mellon Long Term Global Equity Fund	7.1	19.4	-4.9	16.7	13.1	✪✪✪✪
Dodge & Cox Worldwide – Global Stock Fund	-6.4	37.5	4.3	8.3	14.4	✪✪✪✪
Edinburgh Worldwide Investment Trust	35.9	37.2	-51.5	-18.9	4.4	✪✪
Fidelity Global Dividend Fund	5.0	10.4	0.3	9.9	13.7	✪✪✪✪
Legal & General Global Equity Index Fund	4.9	25.1	-4.0	14.0	21.4	✪✪✪✪
Rathbone Global Opportunities Fund	19.3	24.4	-17.5	17.2	20.4	✪✪✪✪
Schroder Global Recovery Fund	-19.4	40.5	2.7	12.1	7.8	✪✪
Vanguard FTSE All-World ETF	-2.5	36.5	-11.3	7.9	9.7	✪✪✪✪

% (as at 30 June)	2019-20	2020-21	2021-22	2022-23	2023-24	Morningstar Fund Rating
North America						
Brown Advisory US Sustainable Growth Fund	-	24.9	-8.4	15.7	27.9	★★★
Dodge & Cox Worldwide – US Stock Fund	-4.9	41.4	3.9	6.8	18.4	★★★★
T.Rowe US Smaller Companies Equity Fund	9.0	32.3	-7.9	9.4	11.7	★★★★
Vanguard S&P 500 ETF	9.5	26.6	1.4	13.7	26.2	★★★★★
UK						
Fidelity Special Situations Fund	-19.6	36.0	-1.5	5.7	19.1	★★★★
FTF Martin Currie UK Equity Income Fund	-11.5	19.1	3.8	5.2	11.7	★★★★
iShares Core FTSE 100 ETF	-13.8	17.9	5.7	9.0	12.6	★★★★★
Liontrust UK Growth Fund	-10.2	18.0	1.7	5.4	11.8	★★★★★
Vanguard FTSE 250 ETF	-10.1	33.2	-14.7	1.8	13.6	★★★★
Europe						
Comgest Growth Europe ex UK Fund	13.2	22.6	-10.2	23.3	7.1	★★★★
Schroder European Recovery Fund	-17.9	32.7	-0.4	18.5	7.6	★★
Vanguard FTSE Developed Europe ex UK ETF	0.3	22.7	-10.7	19.2	12.6	★★★★
Asia and emerging markets						
Comgest Growth Emerging Markets Fund	-4.2	13.5	-27.1	2.7	3.7	★
Fidelity Funds – Asian Smaller Companies	-14.9	41.5	-0.5	6.9	9.2	★★★★
iShares Core MSCI Emerging Markets ETF	-1.9	28.0	-14.2	-0.5	13.7	★★★★
Lazard Emerging Markets Fund	-12.9	25.1	-7.9	8.7	17.4	★★★★
Schroder Oriental Income Fund	-11.4	26.2	-2.3	3.0	15.1	★★★★
Stewart Investors Asia Pacific Sustainability Fund	1.9	26.4	-6.4	4.2	10.4	★★★★★
Japan						
Baillie Gifford Japanese Fund	4.7	18.0	-18.7	6.1	6.0	★★
iShares Core MSCI Japan ETF	5.8	10.5	-9.4	12.7	13.0	★★★★
Schroder Japan Trust	-3.1	22.4	-6.2	21.1	19.3	★★★★

The Select 50 is liable to be changed between publication dates for the Investment Outlook. The next Select 50 update will be on 1 August 2024. For the most up-to-date list please visit fidelity.co.uk/select

% (as at 30 June)	2019-20	2020-21	2021-22	2022-23	2023-24	Morningstar Fund Rating
Bonds						
AXA Sterling Credit Short Duration Bond Fund	1.1	2.7	-4.3	-0.4	9.4	✪✪✪
Colchester Global Bond Fund	6.6	-7.0	-5.5	-4.8	-2.3	✪✪
iShares ESG Overseas Corporate Bond Index Fund	9.3	-6.8	-4.0	-2.4	5.2	✪✪✪
iShares Overseas Government Bond ETF	8.6	-11.8	-3.4	-6.6	-1.5	✪✪
JPM Global High Yield Bond Fund	-2.6	15.4	-11.9	5.9	8.9	-
Legal & General Emerging Markets Government Bond Index Fund	0.0	-6.0	-7.0	5.6	0.8	✪✪✪
M&G Corporate Bond Fund	5.1	3.8	-12.5	-3.9	11.3	✪✪✪✪
M&G Emerging Markets Bond Fund	2.5	-2.7	-8.7	10.3	7.6	✪✪✪✪✪
M&G Global Macro Bond Fund	11.7	-8.3	-3.6	-3.9	-0.7	✪✪✪
Royal London Short Duration Global Index Linked Fund	2.8	4.2	-0.7	-0.9	4.6	✪✪✪✪
Vanguard Global Short-Term Bond Index Fund	2.5	0.5	-4.9	-0.4	4.9	✪✪✪✪
Alternatives						
Balanced Commercial Property Trust	-41.3	50.6	28.3	-37.2	28.4	-
First Sentier Global Listed Infrastructure Fund	-7.3	14.4	3.6	-1.0	3.3	-
International Public Partnerships Limited	17.8	3.9	1.9	-16.5	5.1	-
iShares Environment and Low Carbon Tilt Real Estate Index Fund	-13.2	19.7	-1.4	-8.8	3.9	✪✪✪
iShares Physical Gold ETC	29.2	-11.3	16.3	1.3	22.0	-
Legal & General Cash Trust	0.6	-0.1	0.2	3.0	5.3	-
Ninety One Diversified Income Fund	0.5	7.8	-6.6	3.2	4.8	✪✪✪✪
Ninety One Global Gold Fund	50.8	-19.3	-3.7	4.5	12.0	✪✪✪✪
Pyrford Global Total Return Fund	2.3	3.4	2.0	0.2	6.9	✪✪✪✪✪

Before you invest, please ensure you have read Doing Business with Fidelity and the Key Investor Information Document (KIID) or Fund Specific Information Document (FSI) relevant to your chosen fund(s). These documents give you all the information you need to know about Fidelity 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 30.6.19 to 30.6.24. 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 31.12.23

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