Q3 OUTLOOK 2024

RESEARCH POWERED INVESTMENT

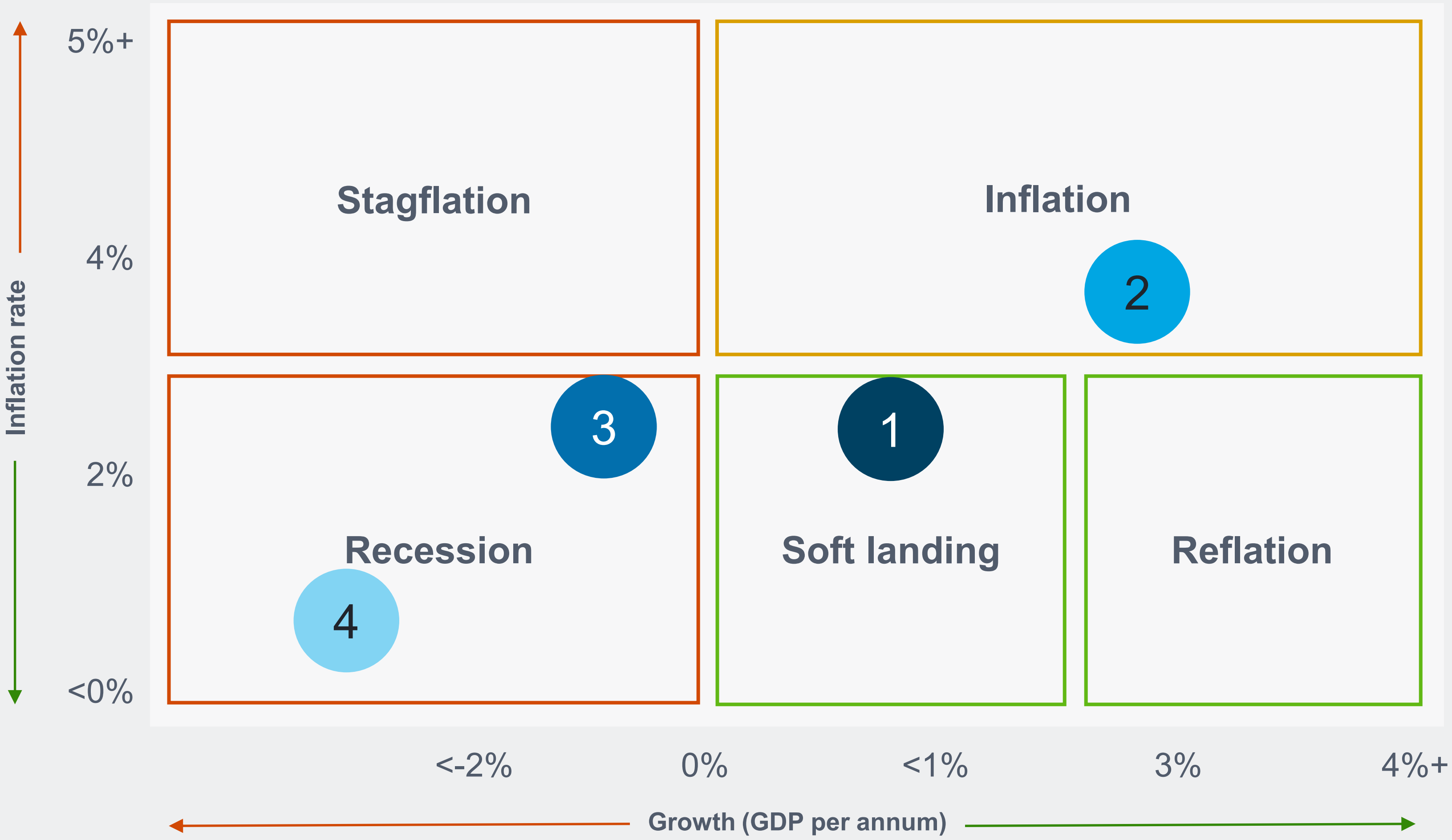
Four scenarios for developed markets in 2024

Scenario 1:
Soft landing 40%

Scenario 2:
No landing 30%

Scenario 3:
Cyclical recession 25%

Scenario 4:
Balance sheet recession 5%



Note: Inflation rate measured by US Core Personal Consumption Expenditures Price Index. Growth by US GDP per annum. Source: Fidelity International, June 2024.

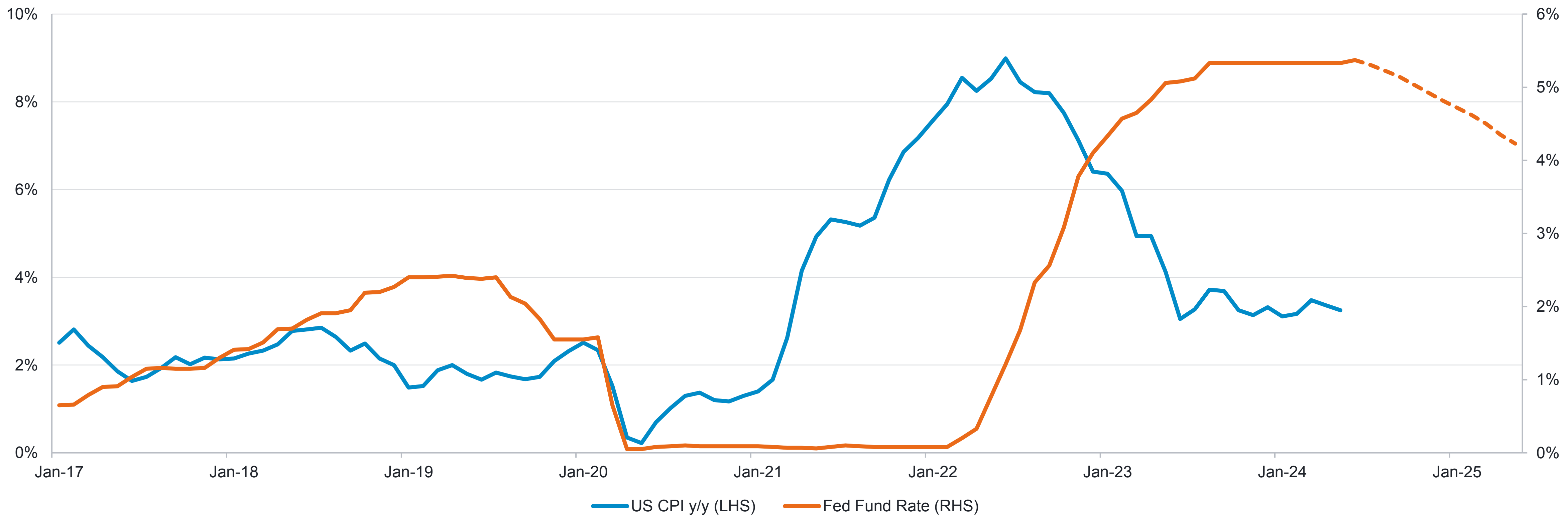
How the scenarios could play out

	Growth	Inflation	Monetary policy	Fiscal policy
Scenario 1: **Soft landing** 40%	**SLIGHTLY BELOW-TREND SLOWDOWN** Growth in major economies settles at (or slightly below) trend	**BACK TO TARGET** Disinflation brings core inflation back to target; no major additional shocks to headline rate	**BACK TO NEUTRAL** Central banks start cutting rates, going back to historical levels of implied neutral rates	**NEUTRAL STANCE** No major shift in fiscal stance
Scenario 2: **No landing** 30%	**CONTINUED RESILIENCE** Resilience in US growth continues and Europe's current slowdown reverses	**ABOVE TARGET STICKY INFLATION** Following initial disinflation, core inflation remains sticky, settling 1-2 percentage points above central bank targets	**HIGHER FOR LONGER** With resilient growth and Fed policy makers psychologically scarred by the 2021 experience, policy rates are kept high. Belated acceptance that neutral rate (R*) has risen	**NEUTRAL TO MILDLY RESTRICTIVE** Divided government in Washington takes additional stimulus off the table – GOP control of Congress would inject a slow negative drag. In Europe, peripheral economies forced to retrench given negative debt dynamics
Scenario 3: **Cyclical recession** 25%	**MODERATE RECESSION** DM economies go into contraction followed by recovery in 2025. Asynchronous timelines for different regions (EA/UK first, US later)	**RECESSION BRINGS INFLATION BACK TO TARGET** Following a period of stickiness, core inflation falls back to target because of damage to the demand side of the economy	**HIGHER FOR LONGER FOLLOWED BY A PIVOT** Inflation stickiness forces CBs to remain behind the curve of macro damage. They only start to cut rates meaningfully when the labour market has definitively cracked. Real policy rates fall.	**NEUTRAL STANCE** No major shift in fiscal stance
Scenario 4: **Balance sheet recession** 5%	**DEEP RECESSION** Developed market (DM) and some emerging market (EM) economies see deep and prolonged recessions lasting through to year-end as serious default cycles take hold in corporates with vulnerable sovereigns also under pressure	**REVERSAL OF INFLATIONARY TRENDS** Inflation reverses as debt deleveraging takes hold	**SHARP PIVOTS FROM KEY CENTRAL BANKS** Central banks keep rates higher for too long and pivot too late. Lumpy transmission of monetary policy inadvertently triggers deleveraging	**CONSTRAINED STIMULUS** Fiscal policy kicks in when growth outcomes become very painful, although monetary policy will still be the main backstop

Source: Fidelity International, June 2024.

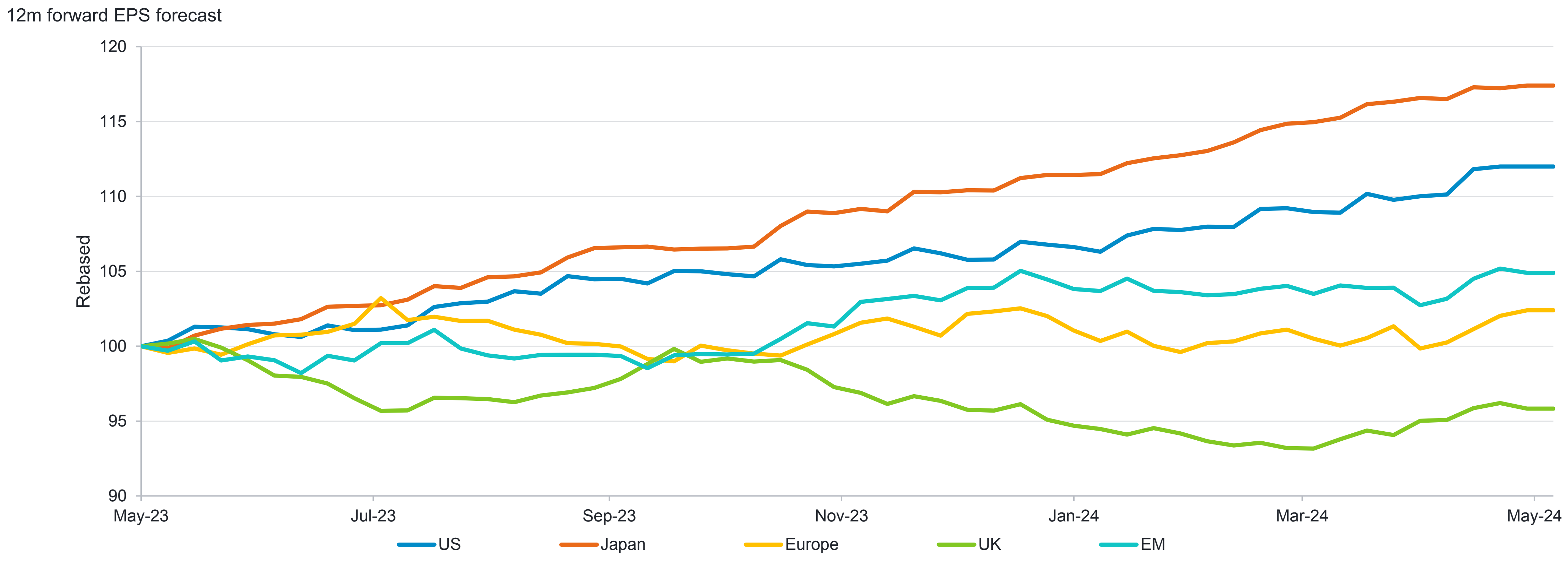
The base case – why we’re expecting a soft landing

Moderating inflation marks the end of the rate hiking cycle, providing a supportive environment for risk assets



Source: Bloomberg, Haver Analytics, Fidelity International, June 2024. *Dotted lines shows market implied Fed Funds Target Rates.

US and Japanese earnings growth drove outperformance over the past 12 months



Source: Refinitiv Datastream, Fidelity International, June 2024

But nothing is guaranteed – our analysts noted a dip in management sentiment last quarter (even as sentiment in China has turned positive)

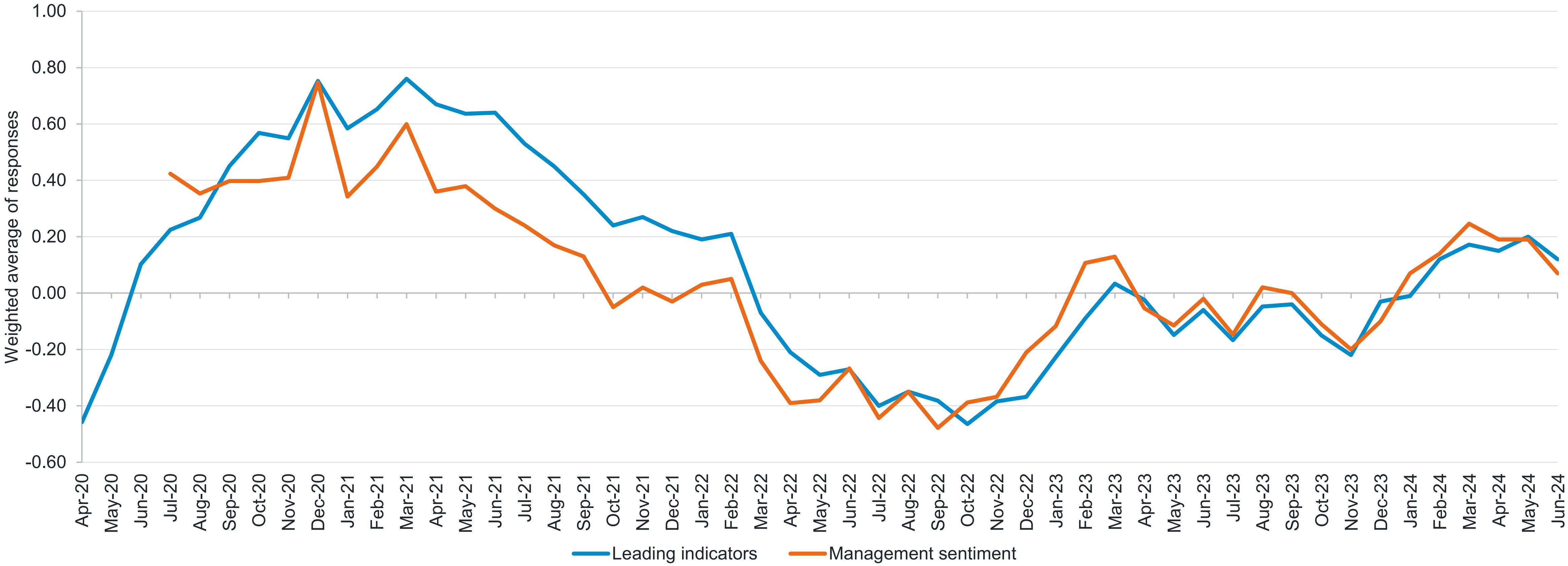


Chart shows proportion of responses reporting management sentiment is positive minus those reporting management sentiment is negative; likewise leading indicators. Strong negative and strong positive receive a higher weighting. Questions: “Based on your recent research and interactions with companies, to what extent, if at all, has your perception of management sentiment over the next 6 months changed?”, and “What is the outlook for leading indicators over the next 6 months at your companies?” Source: Fidelity International, June 2024.

And the costs picture is changing – analysts report further rises in non-labour costs at their companies while labour costs tick down again

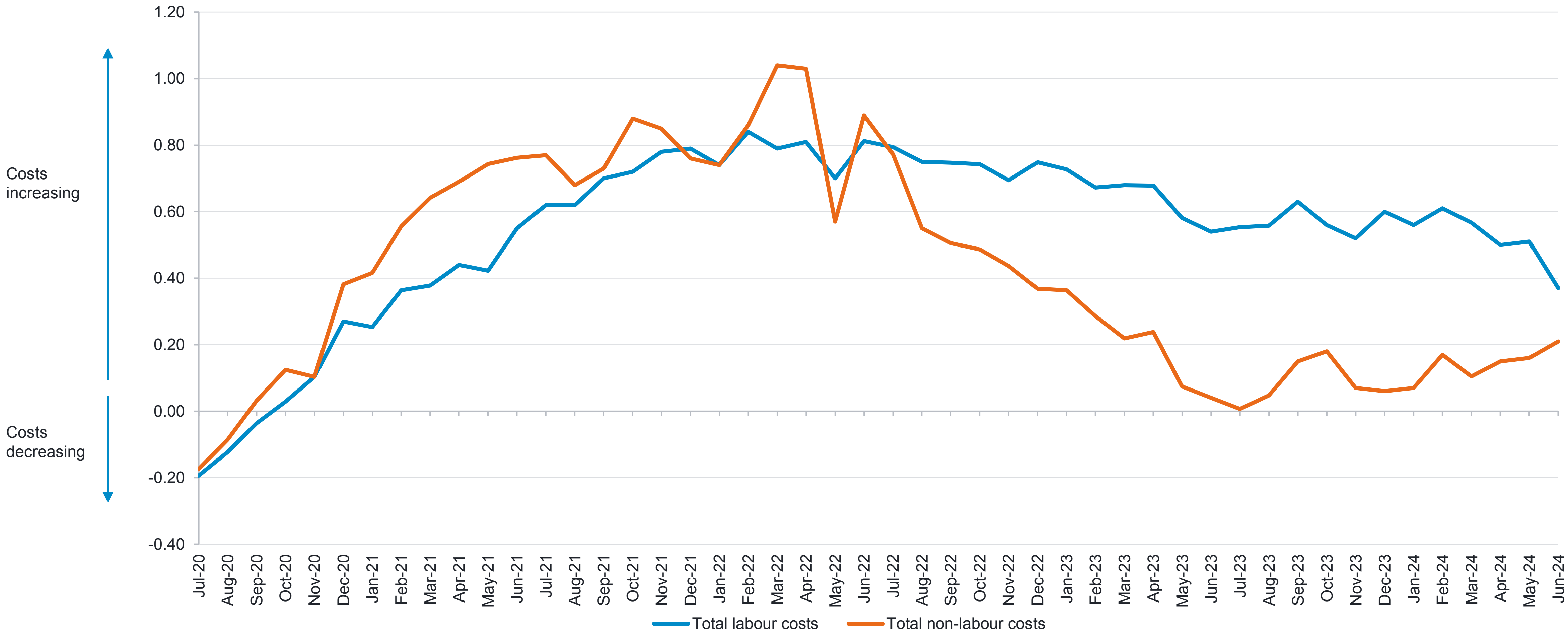
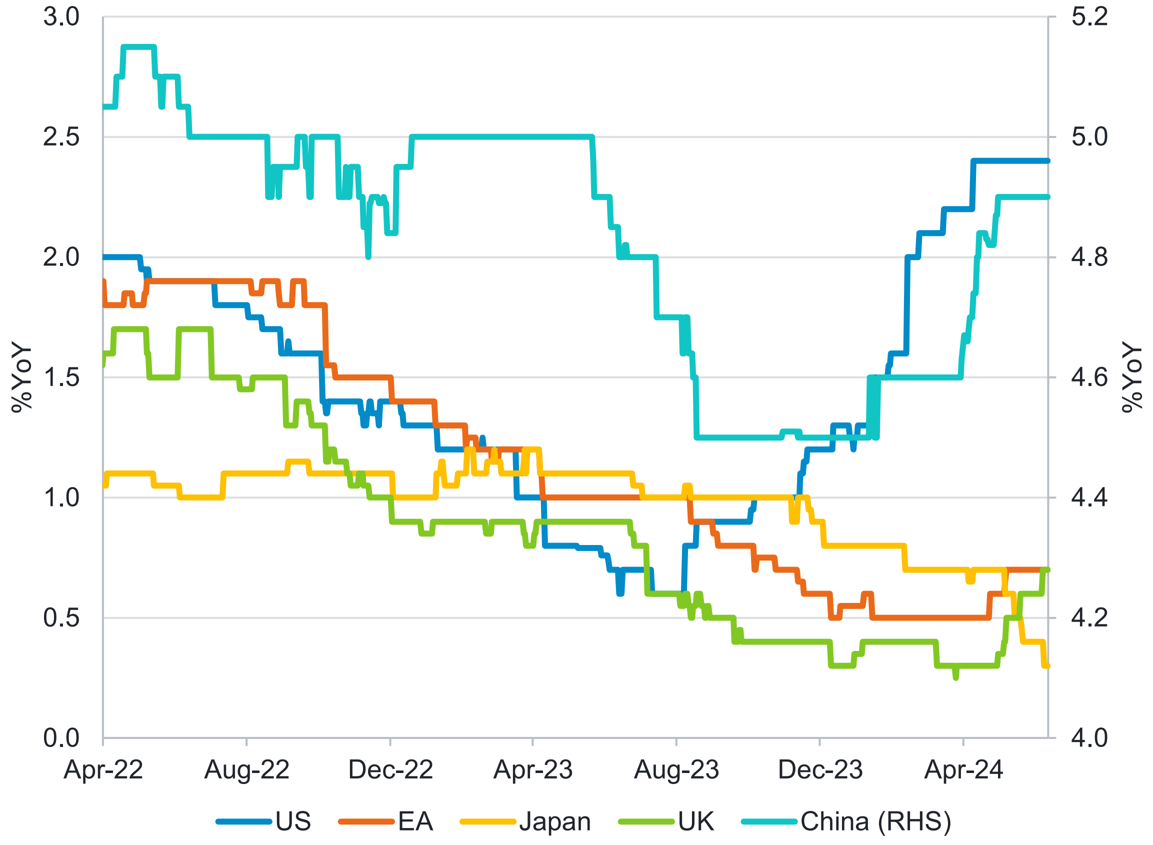


Chart shows proportion of responses reporting costs are increasing minus those reporting costs are decreasing; significant increases and significant decreases receive a higher weighting. Questions: "What are your expectations for total labour costs over the next 6 months compared to current levels?", and ""What are your expectations for total non-labour costs over the next 6 months compared to current levels?" Source: Fidelity International, June 2024.

Points of divergence – US is still an outlier with high growth and inflation forecasts

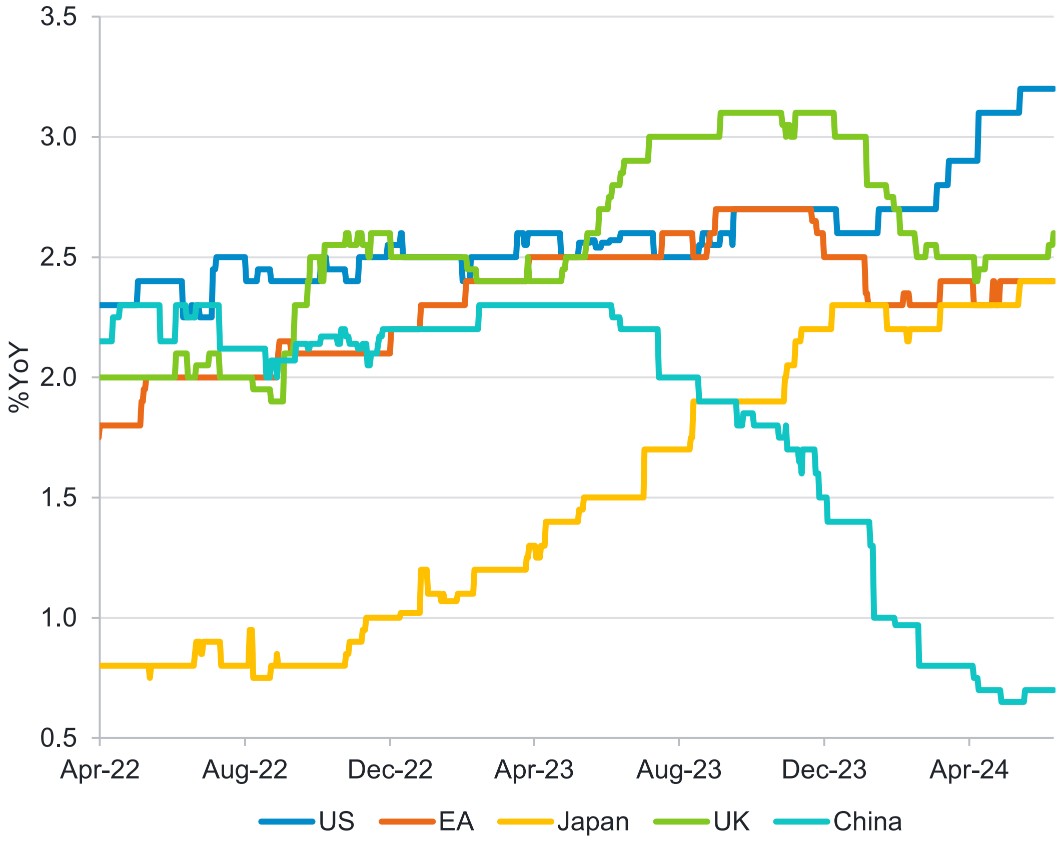
These differences present tactical opportunities

2024 real GDP growth Bloomberg consensus forecast



Source: Fidelity International, Macrobond, Bloomberg, June 2024.

2024 Consumer Price Index (CPI) inflation Bloomberg consensus forecast



Source: Fidelity International, Macrobond, Bloomberg, June 2024.

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Three scenarios for China in 2024

	Growth	Inflation	Monetary policy	Fiscal policy
Scenario 1: **Controlled stabilisation** 65%	The pace of recovery gradually gains momentum as consumption continues to lead. Industrial activities rebound due to improving external demand. Despite the drag in the property sector, real GDP growth stabilises in line with the government's target.	CPI and PPI rebound softly on the back of a gradual recovery in domestic demand. Inflation stabilises slightly below target over the medium term.	The People's Bank of China (PBoC) has less urgency to cut rates given the stable growth momentum. The near-term focus will be on the reserve requirement ratio cuts to provide liquidity support.	Policymakers roll out proactive easing led by additional central government bond issuance. It will continue with gradual de-risking plans to resolve structural issues in local government, property and banking sectors.
Scenario 2: **Serious slowdown** 25%	The economy faces stronger headwinds from domestic structural issues and a developed market slowdown. If financial market stress spreads, private and consumer confidence could be slow to return and growth would remain well below potential.	Both CPI and Purchase Price Index (PPI) gradually fall into negative territory year on year well below government targets.	Easing is in small steps and with limited effect.	Policymakers are slow to introduce sufficient fiscal support for growth.
Scenario 3: **Reflation** 10%	The recovery becomes more broad-based and gains momentum with a more dovish policy setting. The property sector takes the lead from a strong monetary policy push. The initial impulse is strong, but it creates more debt problems in future. Growth may rebound above target.	Both CPI and PPI recover and gain momentum with strong domestic demand rebounding to match or beat the government target.	The PBoC eases monetary policy more aggressively with consecutive benchmark rate and reserve requirement ratio cuts. The system is flushed with liquidity to accommodate broad-based re-leveraging.	Policymakers explicitly bail out stressed local governments and property sector companies, leading to renewed optimism in re-leveraging.

Source: Fidelity International, June 2024.

China shifts focus to manufacturing as the property sector remains a drag

Source: China National Bureau of Statistics, iFinD, Fidelity International, June 2024. Note: Figures show cumulative year-on-year growth in China's fixed asset investment.

Multi Asset: Our Best Ideas

	Tilting towards Value	Structural Themes	Defence	Carry	Alternatives
Scenario 1: **Soft landing** 40%	+ Global Mid-Caps ++ Select EM equities (China, Greece, Indonesia, S Korea)	++ AI/Semiconductors ++ Biotech/Healthcare ++ Climate Solutions ++ Grid Upgrade	+ Min Vol Equities	++ EM Letters of Credit (LC) bonds ++ Hybrids + Credit	+ Liquid Alts + REITs + Commodities
Scenario 2: **Cyclical recession** 25%	-- US Small-Caps	+ Healthcare + Climate Solutions	++ Put Options + Government Bonds -- Equities	++ USD Cash ++ Short Duration Credit -- High Yield Bonds	++ Absolute Return ++Dispersion + Gold
Scenario 3: **No landing** 30%	++ Global Mid-Caps + Japanese Equities FX hedged + EM Equities - US Mega-Caps/ Growth / Momentum	+ Future Financials + Transition Materials	+ Cyclical equities -- Bond proxies - Government Bonds	+ Dividend Futures ++ Hybrids - Investment Grade	++ Absolute Returns
Scenario 4: **Balance sheet recession** 5%	-- US Small-Caps -- US Mega-Caps / Growth / Momentum		++ Put Options ++ Government Bonds -- Equities	++ USD Cash ++ Short Duration Credit -- High Yield Bonds	+ Absolute Returns + Dispersion

Notes: '+' is a positive view; '-' is negative; reflects our views of relative performance for each scenario.
Source: Fidelity International, June 2024

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