



From the desk of

## Maroun Younes

Portfolio Manager, Fidelity Global Future Leaders Fund

29 September 2022

A lot has taken place since we wrote our last edition of 'From the desk of', the vast majority of which related to the macro environment. The sell-off that commenced at the start of the year continued through to June, wiping over 20% off the major global equity markets. Then, in textbook fashion, a bear market rally retraced back around half of the losses over the next two months, before another wave of selling pressure triggered new cyclical lows in recent days.

Irrespective of the direction of the market, one thing has been constant all year, and that is heightened volatility. We warned about this in our 2022 outlook, reaffirmed it again in our last FTDO, and we continue to think this will remain a key feature of equity markets, for at least the remainder of the year.

This all stems back to the fierce war on inflation currently being waged by central banks around the world. High inflation is a problem that needs to be tackled, there's no doubt about this. However, the stubborn persistence of high inflation coupled with the resolve of central banks to bring it under control bring us to an interesting juncture - what's the price that will be paid for winning this war? It is this question that markets are grappling with, and there are now elevated fears that the price may end up being a painful recession. What started off as a valuation adjustment to higher interest rates is now morphing into a growth scare, as evidenced by the price declines over the past month in cyclical sectors such as energy and home builders.

The next few months will be extremely tricky to navigate. The 'Goldilocks' scenario will be one where we are on a clear path to bringing inflation back under control, but one where economic growth will remain positive, albeit slowing. The odds of achieving this, however, are worryingly becoming slimmer as time goes on.

In addition, whilst substantially down year to date, equity markets are not yet pricing in a genuine recession, as we are yet to see any meaningful earnings downgrades coming through. So if we fail to achieve the ideal outcome, it is likely that stock prices may continue to feel some pressure.

We continue to favour high-quality companies that can exhibit pricing power, have sustainable and durable business models, and trade at undemanding valuation multiples. However, we also think now is the time to prioritise businesses with resilient and sticky revenue streams, as well as those with very strong balance sheets. These are key factors needed to survive any recession, should that outcome eventuate. Stock picking, as ever, will be key. The disparity in shareholder returns between quality companies that successfully navigate the volatile macro environment and those that succumb to it can be quite large. Success over the next six months may well be defined by dodging bullets, as opposed to striving to hit home runs.

[fidelity.com.au](https://www.fidelity.com.au)

This document is issued by FIL Responsible Entity (Australia) Limited ABN 33 148 059 009, AFSL No. 409340 ('Fidelity Australia'). Fidelity Australia is a member of the FIL Limited group of companies commonly known as Fidelity International. **Prior to making an investment decision, retail investors should seek advice from their financial adviser. This document is intended as general information only.** Please remember past performance is not a guide to the future. Investors should also obtain and consider the Product Disclosure Statements ('PDS') for the fund(s) mentioned in this document before making any decision about whether to acquire the product. The PDS is available on [www.fidelity.com.au](https://www.fidelity.com.au) or can be obtained by contacting Fidelity Australia on 1800 119 270. The Target Market Determination (TMD) for Fidelity Australian product(s) is available at [www.fidelity.com.au](https://www.fidelity.com.au). This document has been prepared without taking into account your objectives, financial situation or needs. You should consider such matters before acting on the information contained in this document. This document may include general commentary on market activity, industry or sector trends or other broad-based economic or political conditions which should not be construed as investment advice. Information stated herein about specific securities is subject to change. Any reference to specific securities should not be construed as a recommendation to buy, sell or hold these securities. While the information contained in this document has been prepared with reasonable care, no responsibility or liability is accepted for any errors or omissions or misstatements however caused. The document may not be reproduced or transmitted without prior written permission of Fidelity Australia. The issuer of Fidelity's funds is FIL Responsible Entity (Australia) Limited ABN 33 148 059 009. References to (\$) are in Australian dollars unless stated otherwise. Details of Fidelity Australia's provision of financial services to retail clients are set out in our Financial Services Guide, a copy of which can be downloaded from our website. © 2022 FIL Responsible Entity (Australia) Limited. Fidelity, Fidelity International and the Fidelity International logo and F symbol are trademarks of FIL Limited.