



# Mid-Year Outlook 2025

Research-powered investing

## A global rewiring



# Class perspectives

## A more volatile policy and market environment puts a premium on expertise.

The investment teams we lead spent a long time at the start of 2025 debating valuations. That we were doing so with such vigour was some indication of where we found ourselves. Not necessarily at dotcom bust levels of overvaluation, but certainly at a point where there were real doubts over whether US tech stocks, or credit, could continue as they had.

Fast forward to early June, as we write this, and those instincts have been borne out, alongside a series of events which are arguably rewiring the world economic and security order. As uncertainty related to US policy reaches all-time highs, there has been movement in credit spreads, sharp shifts in currencies and long rates, and stock market volatility in which everyone has taken a good hard look at the underlying solidity of the businesses they invest in. Our bank of analysts do this all the time, and as an institution we've proved to be well positioned for the moves of recent months.

There is still substantial risk from here - by which we mean both for profit and for loss. As our macro team outlines, the outlook for the US economy has worsened significantly. Other economies look precarious too, and in global markets volatility has surged. The world's big investors are also naturally its big holders of mainstream assets for which the accepted wisdom is being questioned in ways not seen for a generation. We do not know yet where Treasuries or the dollar will end this year. But we can make projections, and we will make educated ones to shape investments across the various asset classes.

With that in mind we've packed this year's Mid-Year Outlook with a wide range of views, be they macro, asset-class, or sector specific. Right at the top of our minds is the fate of the US economy over the next few months, and you will find solid debate throughout this package of articles on the case for diversification - investors' chief defence in times of significant market and economic turbulence.

The case for Europe has clearly been strengthened, reflected in the market and our view of future earnings. More will be spent on defence and, whatever the domestic political arguments, a Germany that spends more is now a reality. Other central European economies are coming of age and are little exposed to US tariffs. China too, we believe, will flex its fiscal muscle to achieve its economic and policy targets.

Shifting to well-managed income strategies has been an attractive play for many. On the fixed income side, the simple option of cash has also proved popular amid the volatility but as rates come down there will be a tipping point where allocators look for more yield. Asian investors are looking more at European debt and there are signs of a recovery of interest in emerging markets as the structural dollar bull run in play since 2013 shows signs of turning.

Henk-Jan Rikkerink and Salman Ahmed discuss the deep-seated fragmentation of the global order that may arise from today's policy shifts and its macro and market implications; Lei Zhu and Matthew Quaife consider the implications for China and the rest of Asia; our latest survey of Fidelity International's company analysts digs into the impact of tariffs on the ground across regions; and in a new section, our experts dig into the implications for particular asset classes and investors' options in response.


We trust you'll be as stimulated by their ideas as we were.



**Niamh Brodie-Machura**  
Chief Investment Officer, Equities



**Andrew Wells**  
Co-Chief Investment Officer, Fixed  
Income, Multi Asset and Real Estate

The background features a large, dark blue circular pattern with a central hub and radiating segments, resembling a stylized sun or a complex diagram. This central motif is surrounded by various geometric shapes in shades of blue, teal, orange, and yellow, creating a layered and dynamic visual effect.

"Accepted wisdom  
is being questioned  
in ways not seen for  
a generation."

# Contents

---

<b>Part 1: Investment outlook</b>	<b>5</b>
A global rewiring	6
Asia: The diversification trade	9
Analyst Survey: Winners and losers from new trade order	12
<b>Part 2: Industry views</b>	<b>16</b>
Foreword   Wanted: New destinations for capital	17
Investment strategies to manage uncertainty	18



# **Part 1:**

# **Investment outlook**

---



# A global rewiring

The world is likely to fragment through the rest of 2025 and beyond. Investors may want to adjust their portfolios to reflect the new order.



**Henk-Jan Rikkerink**  
Global Head of Multi Asset,  
Real Estate, and Systematic



**Salman Ahmed**  
Global Head of Macro  
and Strategic Asset Allocation

- The first half of 2025 has shown rapid market changes, with ongoing volatility expected for the remainder of the year.
- The deep-seated fragmentation of the global order, driven by US and China policy shifts, will alter trade and capital flows, making diversification essential for investors.
- Private assets, real estate, and emerging markets like India and Latin America offer attractive opportunities with relatively cheap valuations.

Tariffs, trade deals, tantrums: the first six months of this year have shown us how quickly markets can move. Expect more jitters in what remains of 2025. More interesting for the long-term investor is the deep-seated fragmentation of the global order that will arise from today's policy shifts. The US is pushing for reliable allies in supply chains, while China is being pressured to orientate away from supply-side stimulus toward domestic consumption. A managed decoupling between both countries in strategic sectors will push trade and capital flows along new geostrategic lines.

This may confuse the picture for investors, who have long turned to the US as a relatively safe haven through previous bouts of volatility. Diversification into alternative regions will be paramount in this new age.

## Here are some of our top convictions for the remainder of the year:

1. **Globally diversified portfolios:** Regional allocation will be more important as US assets experience heightened volatility.
2. **Hard currency and local currency EM bonds:** these stand to gain from a weak US dollar. Many are very cheap. Some, including Brazilian and Mexican bonds, boast attractive yields.
3. **The euro and Japanese yen:** these currencies should prove relatively stable and provide some of the defensive qualities lost from a turbulent dollar.
4. **Emerging market (EM) equities:** the rally in China is better supported by fundamentals than on previous occasions. Valuations are relatively cheap. China, India, and Latin America provide pockets of interest.
5. **Gold:** likely to play its traditional role as a preserver of value as the dollar depreciates.

## US macro: Prepare for inflation

Effective tariff rates currently stand at around 14 per cent. This is likely to increase inflation in the US, to around 3.5 per cent this year. We believe there is a 40 per cent probability that this materialises as economic reflation, and a 40 per cent probability of stagflation (where prices rise even as growth falls). Meanwhile, foreign-produced goods will compete to find a home elsewhere as demand diminishes in the US. This should result in deflation in the rest of the world.

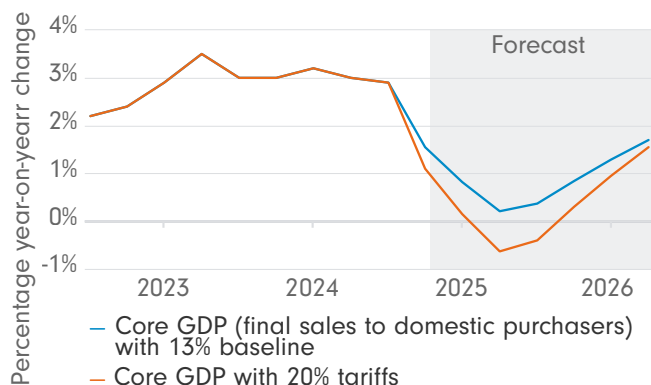
### Scenarios for the US in 2025

Our combined probability of stagflation and recession has moved down, but remains high at 60%



Rising tariffs and volatile trade policy will also bring US growth down to around 1 per cent this year. While all-out recession is less likely if a de-escalation with China follows through, the picture remains uncertain. Were the effective tariff rate to rise to 20 per cent, recession would be back on the cards.

**Chart 1: Effective tariff rates at 20% would push the US into recession**



Source: Fidelity International, Fidelity International Global Macro Team calculations, macrobond, BEA. May 2025.

All this leaves the US Federal Reserve with a difficult balance to strike. We believe tariff relaxation and persistently sticky inflation mean the Fed is unlikely to cut rates this year (contrary to market expectations). But so long as the tariff picture remains unclear, so does the outlook for monetary policy.

Given the stagflationary risks in the US, investors will now look to alternative shores for growth hedges. Most other central banks - Japan and Brazil aside - are in a cutting cycle. We anticipate the European Central Bank will maintain its quarterly cutting cadence towards a policy rate of 1.5 per cent (and potentially lower if a trade war escalates), while improving inflation data amidst a softer labour market in the UK will facilitate further cuts for the Bank of England too.



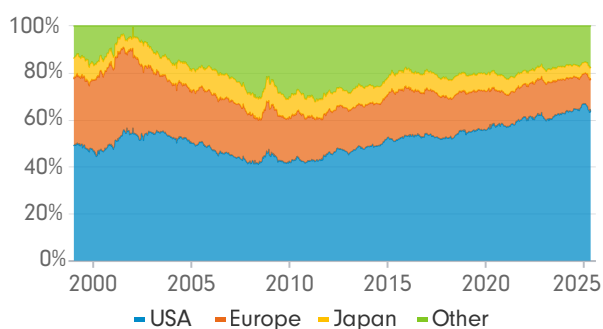
## Broadening horizons

The diverging inflationary picture is symptomatic of a deeper-set, structural rewiring of the global economy. President Trump is determined to restore manufacturing to America and reduce the size of the US current account deficit by way of tariffs, while striking trade deals with friendly countries. China likewise is trying to support domestic consumption and increase the size of its service economy. Over the long term, we expect to see a fragmentation of the world's economic, technological, and security order, as both pursue more isolationist policies.

One likely consequence of these changes is a potential rebalancing of US assets in investors' portfolios. The US dollar is most obviously at risk, given its status as global reserve currency has fed into the twin deficits that Trump is now trying to reduce. The effectiveness of the US dollar as a hedge to equity risk is also coming under question, building on today's dollar depreciation as foreign investors lift hedge ratios.

Diversification has always been important. Now it is imperative for portfolios that have become increasingly reliant on US assets over the past 25 years. Capital outflows and a dollar depreciation mean index weightings will look very different in the future. Those who get ahead of these structural trends may stand to benefit as portfolios rebalance.

**Chart 2: US assets dominate today's portfolios**  
MSCI all country world index



Source: Fidelity International, May 2025.

The euro could prove a significant beneficiary from the repatriation of flows, while newly expansive German fiscal policy signals the potential for a revival of the region. The valuation and defensive characteristics of the Japanese yen also make this currency appealing,

while gold should continue to respond well to any further geopolitical ruptures.

Emerging markets are attractive. Debt will be buoyed by dollar depreciation - some countries such as Brazil and Mexico already offer very attractive yields. EM equities look relatively cheap. The market is underpinned by Chinese stocks, which have turned a corner following AI breakthroughs in the country.

Private assets including real estate offer further diversification potential. That's particularly useful given their long-term investment horizon and active ownership in many strategies, providing investors with the ability to make adjustments to evolving market dynamics. Likewise, investors may find alternative opportunities in real estate, especially through higher income yielding European markets which can protect against inflation, and through the value-add of 'greening' previously unsustainable buildings.

And there is still room in a diversified portfolio for US equities. The S&P 500 comprises many of the world's biggest and most innovative companies, which are highly profitable and shareholder friendly. It would be unwise to bet against the US entirely; but equally it is not the only game in town.

## Fickle fiscal

Fiscal policy also supports the case for portfolio rebalancing. It is impossible to ignore the US debt burden, and the country shows no sign of stabilising its trajectory. It is running wartime-level deficits at a time when the unemployment rate is at cyclical lows. High volumes of treasury issuance paired with today's volatility are creating a risk premium on long-term debt, as the imbalances between supply and demand become more prominent. This further erodes the appeal of US Treasuries as a safe haven and strengthens the case for diversification elsewhere.

One such area could be German bunds. US foreign policy and the need for Germany to boost internal investment in infrastructure and defence spurred the country to initiate a fiscal U-turn earlier this year. There is still ample room for more issuance given Germany's track record of fiscal rectitude.





# Asia: The diversification trade

The ongoing divergence between economies presents a new reality for Asia. At the same time, it offers exciting diversification opportunities across the region.



**Lei Zhu**  
Head of Asian Fixed Income



**Matthew Quaife**  
Global Head of Multi Asset

- While Asia's reliance on trade makes it highly vulnerable to tariff tensions, many of the region's central banks have room to ease monetary policy, offering a buffer against their impact.
- Investors are reallocating funds from traditional safe havens towards Asia, drawn by its potential for growth, currency appreciation, and evolving consumer markets.
- Despite the near-term uncertainty caused by US tariffs, Asia's long-term growth prospects remain robust, supported by ongoing favourable structural shifts in China, Japan, and India, and strategic positions in the AI supply chain for countries like South Korea and Taiwan.

Asian markets breathed a sigh of relief after the US and China reached a temporary agreement on tariffs in May. But after all the surprises, twists, and turns, to say a great deal of uncertainty remains is fast becoming the clichéd understatement of the year.

One thing is for sure. We are in a new era of geoeconomic fragmentation. Neither the US nor China says it wants to fully decouple from the other, yet there is growing evidence of that happening in strategic areas. Asia's reliance on trade as an engine for growth leaves it particularly exposed to those tensions. Meanwhile frequent shifts and reversals in trade policy make it doubly challenging for governments to deliver timely fiscal and monetary policy responses.

However, compared with others, we believe many Asian central banks have more monetary room to soften the impact of tariffs on their economies. While inflation remains sticky in the US, it is cooling in most

of Asia, and a recent surge in the region's currencies gives central banks more leeway. We expect to see more monetary easing through the second half of 2025. Investors looking to diversify their portfolios through this new era will find much to like in Asia.

**Here are some of our top convictions for the months ahead:**

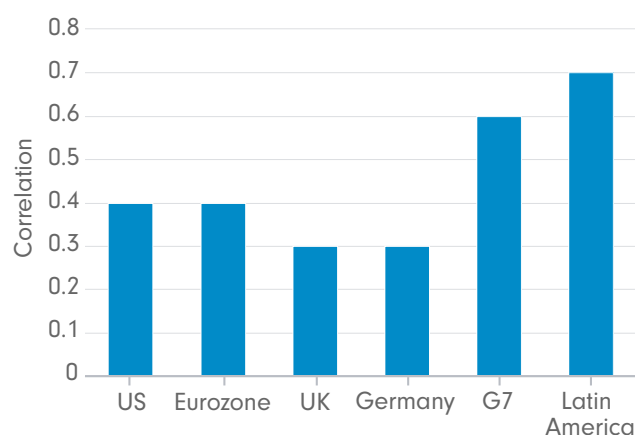
- 1. Asia's investment grade local currency government bonds:** these are now an appealing diversification play, which will benefit from potential interest rate cuts.
- 2. Currencies:** remain historically cheap even after the recent rally.
- 3. China technology stocks:** China's ongoing shift from the world's factory to the world's innovator will further unlock the growth potential of tech firms.

## Compelling grounds for diversification

Uncertainty around US trade policy combined with its growing debt burden is a key driver, in our view, pushing global investors to reallocate funds away from the traditional safe havens of the dollar and long-duration Treasuries. There are a number of areas we believe where Asia is set to benefit from the shift.

We like Asia's investment grade local currency government bonds. They exhibit low-to-moderate correlations with major global peers, which makes the asset class a good diversification tool. After years of development, the markets are far deeper than they once were, driven by growing economies and increasing support from regulators. More index providers have added the region's local currency bonds to their global indices, enhancing the appeal of the asset class. Central bank rate cuts and the potential for currency appreciation should lead to a boost in demand for the asset class.

**Chart 3: 10-year correlation between Asia local currency government bonds and major global peers**



Source: Bloomberg, Fidelity International, June 2025. Note: Correlation data is based on monthly returns (unhedged) of Bloomberg, ICE BofA, FTSE, and JP Morgan indices that focus on sovereign debt. Data as of March 31, 2025.

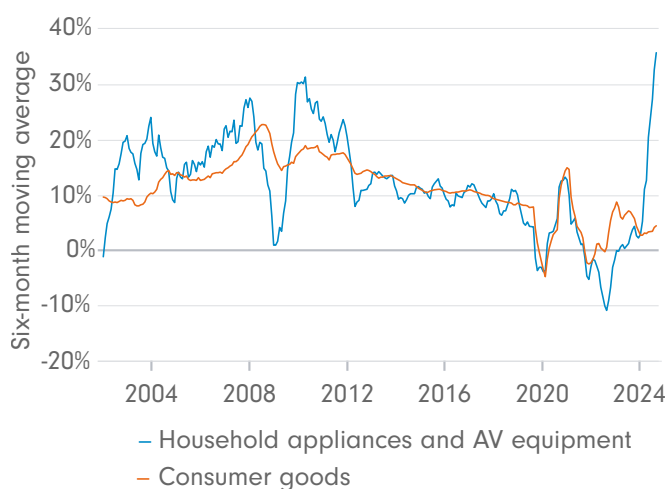
Despite the recent rally, Asian currencies still look cheap relative to their historical long-term averages, as measured by the real effective exchange rate. Demand for the region's currencies is likely to pick up further as investors seek dollar alternatives and position for ongoing tariff talks.

## Change is afoot

Structural shifts in Asia's biggest economies are strengthening arguments for regional allocations too. Chinese policymakers have been focusing more on supporting domestic consumers as part of the country's moves to achieve its target of around 5 per cent growth this year. In March 2025, the government expanded a state subsidy programme that provides discounts on purchases of new consumer goods. The targeted approach is starting to help: the six-month moving average for sales of home appliances jumped in April by the most on record.

**Chart 4: Stimulus is working**

China home appliance sales spike on government support



Source: China National Bureau of Statistics, Macrobond, Fidelity International, June 2025.

There is still some way to go, however, for the country to rebalance its economy toward consumption-led growth, including building out its threadbare social safety net and funnelling more resources from factories to households.

The stratospheric rise of AI start-up DeepSeek earlier this year took the world by storm, marking a turning point for how global investors perceive the Chinese tech sector. No longer just the world's factory, it is now a worthy rival for the title of the world's innovator. Despite US export controls, advancements are being made across sectors, as the country embraces many new technologies at a faster rate than anywhere else. We think this momentum has further to run, with more growth potential in tech stocks.

Beyond China, Japan's reflation story remains intact. After decades of stagnation, the 'virtuous wage price cycle' policymakers have been aiming for is well under way. Major Japanese companies have promised large pay increases for their workers this year. The wage growth is expected to translate into a recovery in consumption. While export-oriented sectors are reeling from US tariffs, domestically-focused companies, such as banks, should fare better.

India, which has a large and young population and low dependence on exports, is well positioned to withstand uncertainties in a global trade slowdown. The policy backdrop, with monetary easing and fiscal consolidation, we believe will help the economy pivot toward private sector-driven growth. Cuts to income tax will enhance the purchasing power of the country's rising middle class, helping to offset the weakening outlook for global demand.

We think others stand to benefit from the developing AI story - for example, leading chip makers in South Korea and Taiwan, thanks to their strategic positions in the AI supply chain. Despite uncertainty surrounding potential tariffs, the robust AI demand will support their promising outlook.

### **The long view**

There's no denying that the challenges posed by US trade policy for Asia more broadly are acute and could lead to a slowdown in export orders, while weighing on corporate confidence and delaying capex plans.

But while the region's economic outlook may be challenged in the near term, the reshaping of the world order in manufacturing, trade, and technology means global investors can't ignore Asia's diversification benefits and long-term structural growth potential.







# Analyst Survey: Winners and losers from new trade order

**Tariffs - and their knock-on effects - create fresh cost pressures for companies around the world. But we believe the effects will not be distributed evenly.**



**Monica Li**  
Director of Research



**Terry Raven**  
Director of Research



**Rebecca Motta**  
Director of Research

- Analysts from Fidelity International highlight how companies with pricing power, particularly in sectors like information technology, consumer staples, healthcare, and industrials, may better manage tariff-induced cost pressures. However, weak demand in certain sub-sectors, like luxury goods, could constrain pricing power.
- Analysts suggest that shifting production locations might mitigate some tariff costs, though this could lead to further inflationary pressures, such as labour shortages.
- Companies in developed markets may be more affected by trade tensions than those in regions like Asia Pacific and China, where analysts report more positive or neutral effects from changing policies.

The topic of trade war looks set to dominate analyses for the remainder of 2025, dividing the corporate world into those who are bracing for it and those looking to jump on opportunities.

Investors will naturally want to identify who is who, taking account of second-order and relative effects, while also staying mindful of the macroeconomic context.

## Cost inflation fears vary by region

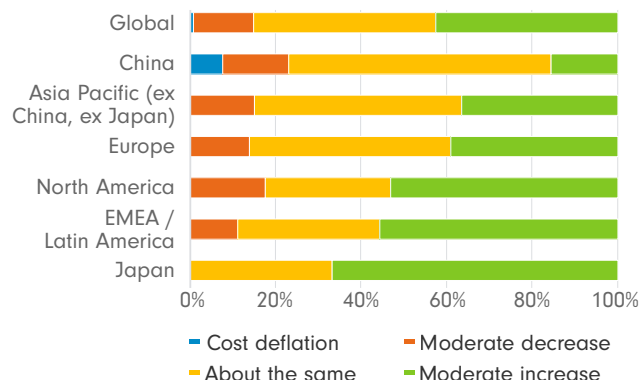
The bottom-up view from Fidelity International's analysts shows regional divergence when it comes to cost inflation expectations, echoing our overall mid-year outlook.

For example, 53 per cent of North America analysts expect moderate cost inflation increases, an expectation that's also shared by a majority of Japan and EMEA/Latin America-focused analysts.

Elsewhere though, while a fair number predict greater inflationary pressures in the cost bases of the companies they cover, most analysts globally expect those pressures will stay the same or decrease.

**"53 per cent of North America analysts expect moderate cost inflation increases."**

**Chart 5: Mixed expectations for companies' cost inflation**



Question: How, if at all, do you expect inflationary pressures within your companies' cost bases to change over the next 12 months? Chart shows percentage of analysts. Source: Fidelity International, May 2025.

One factor that could keep rising costs in check is a decline in oil prices.

"OPEC+ are reinstating their supply faster than had previously been expected," notes **James Trafford**, an equity analyst who covers the sector. "For now, the oil price has been surprisingly resilient, but it may drop in the second half of the year once those barrels are actually starting to be produced."

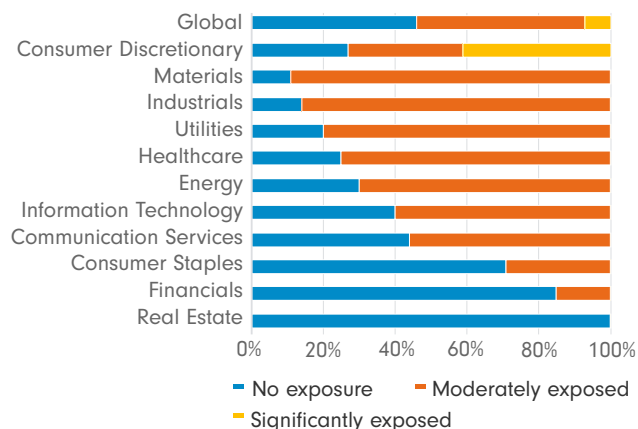
Of course, higher tariffs do represent an obvious source of one-time, cost-push inflation, with consumer discretionary firms looking particularly exposed.

"A significant proportion of my companies' goods are imported from Asia," says Cameron Ho, a North American retail analyst.

Zak Gibson, a consumer discretionary analyst for EMEA and Latin America, agrees: "Apparel is 90 per cent imports from China."

"Retailers passed through food inflation without issue during the 2022-23 inflation cycle, tariff inflation is likely to be smaller."

**Chart 6: Tariff targets on their backs**



Question: How exposed do you think your companies' costs are to any permanent changes in the level of tariffs they face? Chart shows percentage of analysts. Source: Fidelity International, May 2025.

By contrast, financials, real estate, and consumer staples are the sectors with the lowest proportions of analysts saying their companies' costs are exposed to tariff changes.

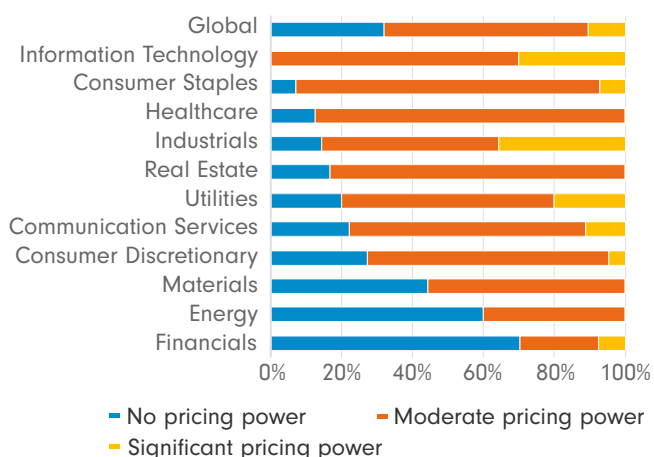
"Banks consume an immaterial amount of imported products," says Canadian financials analyst Thomas Goldthorpe, although he adds that a knock-on effect of tariffs could be lower loan growth if the economy weakens.

### Which companies have pricing power to pass on costs?

For those businesses whose cost bases have higher exposure to tariffs, pricing power will be key in determining whether they can maintain margins. Here again the picture is mixed. Information technology, consumer staples, healthcare, and industrials are the sectors with the largest proportion of analysts who say their companies have moderate or significant pricing power.

"Retailers passed through food inflation without issue during the 2022-23 inflation cycle," says North America-focused consumer staples analyst Andrew Hall. "And the tariff inflation is likely to be smaller."

**Chart 7: Power to (pass on costs to) the people**



Question: To what extent do you think your companies have the pricing power to pass on the cost of tariff changes to their customers? Chart shows percentage of analysts. Source: Fidelity International, May 2025.

"I believe engine companies have the best pricing power of any industrials," adds Oliver Trimmingham, who covers European aerospace. "They occupy monopoly or duopoly positions, with mammoth barriers to entry, and utterly captive customers."

Jonathan Tseng argues similar dynamics grant significant pricing power to the semiconductor producers he covers: "It's a consolidated industry. And it's hard to make this stuff."

"My companies are mostly high-quality businesses with pricing power and peers with similar supply chains," says Dominic Hayes, an industrials sector equity analyst covering capital goods makers. "So, the main question is the degree of demand destruction."

In some sub-sectors, weak demand is already imposing a constraint on pricing power.

"Historically I would have said my companies have significant pricing power," says equity analyst Emma Cunningham. "However, luxury companies have pushed pricing too much since Covid, which puts them in a more difficult position to do so today. Consumer demand is choppy, with fatigue across vast portions of the consumer sector, including luxury."

## The case for - and costs of - relocating production

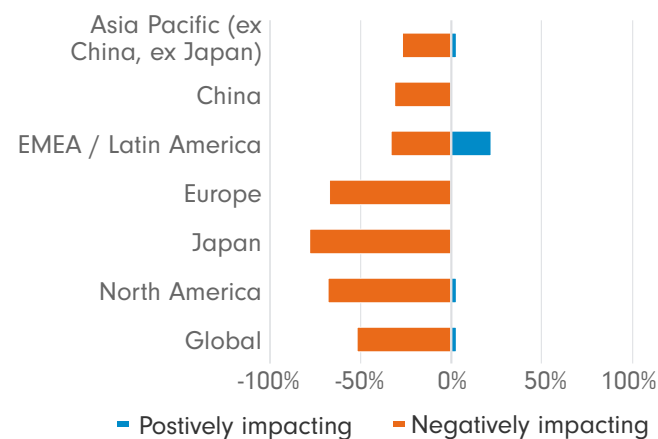
As things stand, most analysts say current trade policies are negatively affecting their companies.

Companies can respond to rising costs by shifting production to different locations depending on the level of tariffs.

"I think my companies can change their supply chain structure," adds Penn Bowers, an equity analyst who covers Japanese gaming companies. "So on a short-term basis they may be exposed to tariff changes but on a longer-term view they can adjust fairly easily."

For some sectors though, shifting production wouldn't be a straightforward fix, especially if lots of businesses are trying to do the same thing all at once. While a reordering of global supply chains might well minimise tariff costs at the individual firm level, it could nonetheless represent a further inflationary impulse beyond the initial tariff shock.

**Chart 8: Supply chains under strain**



Question: To what extent are current trade policies affecting your companies' supply chains relative to how they typically operate? Chart shows percentage of analysts. Analysts who responded 'No impact' are not shown. Source: Fidelity International, May 2025.

"If companies rapidly try to relocate to the US, that could lead to labour shortages and an increase in labour costs," says automotive fixed income analyst Andras Karman.

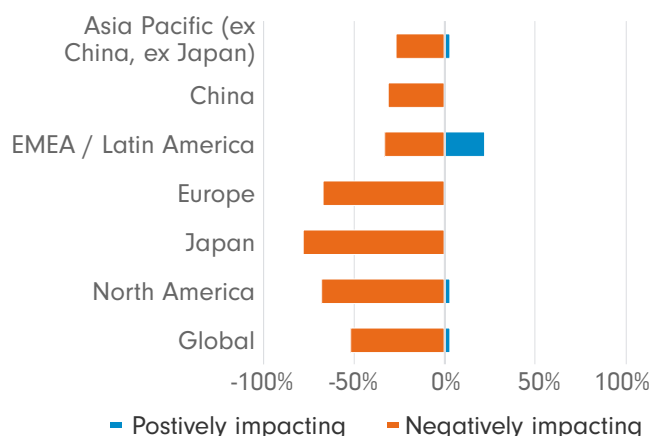
## Asia-focused analysts are relatively sanguine

Interestingly, as Chart 8 above shows, most analysts who cover Asia Pacific, China, and EMEA/Latin America say current trade policies have either no impact or a positive impact on how their companies currently operate. This suggests that if trade tensions persist, it's companies in developed markets that could feel the brunt.

Chart 9 tells a similar story, where a notably smaller proportion of analysts covering Asia Pacific and China expect supply chain issues to adversely affect their companies' earnings compared with other regions.

"I don't think there's no big direct impact from tariffs to domestic consumption," says China-focused consumer staples and sportswear analyst Alex Dong, although he adds that the overall picture is gradually weakening, against a current backdrop of limited fiscal stimulus to spur consumption.

**Chart 9: Relative calm in Asia around supply shortages**



Question: How, if at all, could (non-labour) supply shortages / issues impact your companies' earnings over the next 12 months? Chart shows percentage of analysts. Analysts who responded 'No impact' are not shown. Source: Fidelity International, May 2025.

Evan Delaney, a fixed income telecoms analyst covering North America, sees more direct tariff-related consumption headwinds in his sector: "Tariffs are likely to make handsets like iPhones more expensive. All else being equal, this will make a

consumer less likely to upgrade their plan, slowing subscriber and pricing growth."

But it's not just the absolute effect of tariffs that investors should consider. Relative impacts will have a big part to play in deciding who the winners and losers are.

"The current base case is that Indian textile players may see relatively better tariffs versus peers," says equity analyst Priyadarshree Dasmohapatra who covers the space. "If that happens, they will end up having better bargaining power."

"A consumer is less likely to upgrade their [phone] plan, slowing subscriber and pricing growth."

There are also, as always, second-order effects to consider. If we do, as expected, see persistent inflation in the US economy for the rest of the year, this too will create winners as well as losers.

"Given the probability of US Federal Reserve interest rate cuts has decreased since the tariffs, I expect banks to maintain relatively healthy net interest margins in the next 12 months," says Sukhy Kaur, a financials fixed income analyst. "High inflation is also generally good for the insurance broker sector."

To end on a positive note, though, whatever further challenges tariffs may or may not create, they will not be the first big tests that management teams have faced this decade.

"I think managing through the Covid supply chain disruptions has left business models better prepared to handle this situation," says European industrials analyst Abhishek Dhawan. "So, we should not underappreciate the ability of cyclical to be able to navigate this better than in the past."





## Part 2: Industry views

---

# Wanted: New destinations for capital

---

**Events of recent months are a significant change for investors in Asia and beyond and demand the examination of alternative distributions of capital going forward.**

From an Asian perspective there is no question that the opening months of 2025 have delivered a regime change. It is a term that is oft-used and oft-devalued, but I believe firmly we will look back on this period and say that the events of the first half of 2025 were a turning point. Trends that have begun over the past two months may well prove definitive for the next decade.

Some hard truths are emerging: the big money investors we deal with in Asia are unlikely to be allocating 70 per cent of their money to the US equity market for too much longer; allocations to US Treasuries similarly deserve close examination; and we should think carefully about where else that money might go.

Hedging is a big question for the Asian investors we talk to every day and de-dollarisation is being actively discussed. The orthodoxy of the 60-40 portfolio has long been undergoing a rethink, as has how we all deal with currency exposure.

The United States will not be entirely left behind. It is still the world's biggest market and one that demands allocation. But markets are never a business of black and white, big moves happen because of a shift at the margins.


All of that has profound implications for our clients. Our job is to deliver the thought and action that allow them to see through the immediate uncertainty and define where markets are headed in the longer term and what it means for the construction of portfolios.

That is no small job and mid-year outlook includes a preview of our new Investor Toolkit - a guide from our asset class experts on how to deal with the different scenarios ahead.

We will need all the tools we can lay our hands on for the months to come, because the first half of 2025 has made one thing clear: high tariffs or not, it will not be business as usual at all.



**Damien Mooney**  
Head of Asia Pacific  
Ex Japan



# Investment strategies to manage uncertainty

---

Here, we lay out a preview of a new investor toolkit from Fidelity that offers solutions to deal with the challenges presented by an era of global fragmentation.

- Fragmentation has the potential to disrupt established performance trends across asset classes and geographies.
- After years of US exceptionalism, asset allocators must assess whether their geographic exposures remain appropriate.
- Evolving correlation patterns across asset classes demand a rethink of risk management and diversification processes.

Investors are facing uncertainty on multiple fronts: economic growth, fiscal policy, monetary policy, inflation, geopolitics, and international capital flows. Against this backdrop, asset class behaviours are fluctuating as macro dynamics shift, while certain traditional safe havens are becoming less reliable. Time-tested diversification techniques are therefore becoming less reliable, challenging investors' ability to balance investment opportunity and risk. Geographic allocation has become an area of concern, particularly for non-US investors, given the country's elevated weighting in global indices. The high level of concentration that has developed within the US equity market as a result of tech dominance also requires further consideration, given shifting market dynamics.

“Against this backdrop, asset class behaviours are fluctuating as macro dynamics shift, while certain traditional safe havens are becoming less reliable.”

## How shifting macro dynamics impact asset class returns – an inflation example

		Key indicators				Market impact	
	Economic conditions	Inflation	Monetary policy	Bond-equity correlation	Commodity-equity correlation	Equities	Bonds
<b>Inflationary shock</b>	Surging inflation requires dramatic policy tightening Growth needs to weaken to solve the inflation problem	Very high, rising	Strong tightening	Positive	Negative	Weaken ▼	Weaken ▼
<b>Deflationary shock</b>	Economic policy struggles to stimulate very weak activity and inflation	Very low, falling	Strong easing	Negative	Positive	Weaken ▼	Strengthen ▲
<b>Inflationary</b>	Inflation risks are a key market and economic concern Growth may be robust, but limited room for policy support	Upward pressure	Concerned about inflation	Positive	Negative/Neutral	Strengthen ▲	Weaken ▼
<b>Disinflationary</b>	Inflation pressure is low or consistently declining Economic policy can focus on supporting growth, markets	Stable/declining	Able to support growth	Negative	Positive	Strengthen ▲	Strengthen ▲

Source: Fidelity International, June 2025.

## The investment challenges – and solutions

There is a lot to digest, but we see a number of persistent market dynamics that can act as a guide for investor decision-making over the coming years, as illustrated below:

### Key investment challenges

Search for safety	Uncorrelated exposure	Macro-driven markets	Fading US market dominance	Long-term growth in uncertainty
Investors looking for wealth preservation as traditional safe havens are being tested	Positive equity/bond correlations push investors beyond the 60/40 approach	Inflation remains sticky in some areas, as growth concerns and recession risks rise	US dominance has faded since 2024, calling for a more global approach	Investors still need long-term growth, and those prepared to look-through current volatility can capture upside

Source: Fidelity International, June 2025.

Whatever an investor's view, one thing is clear - what has worked in the past may no longer work in the future. Asset allocators should therefore approach their decisions with a forward-looking perspective, backing their strategies with in-depth research and recognising that asset class behaviours can change through time. With that in mind, there are several actions worth considering:

## **1. Consider diversification across regions**

Perhaps most obviously, global investors who believe that US market dominance has peaked (or even plateaued) should seek to increase the international diversification of their exposures. To achieve this, they might construct their portfolios using regional building blocks, improving flexibility to react to structural changes in the geopolitical backdrop as/when they reassess their regional exposures, including potential structural home biases versus global exposure.

In equities, attractive bottom-up opportunities are being presented across Europe in markets like the Nordics and the UK. Across Asia, smaller companies look attractive, while China continues to offer compelling investments on an idiosyncratic basis. Emerging markets also look appealing, particularly opportunities in Latin America. In every case, selectivity will be important as investors assess structural exposures and tactical opportunities. Meanwhile, the dislocation of policy regimes around the world is likely to present opportunities across the credit spectrum at different points through the investment cycle, which can be captured through regional or active global aggregate strategies.

## **2. Capture future drivers of return**

If we have entered a new era in which elevated uncertainty stifles growth, income could become a more important driver of overall returns. This will be especially true within equities if the mega-cap companies which have driven valuations higher see their exceptional earnings growth rates of recent years moderate.

Such risks support the use of dividend-based total return strategies focused on high-quality companies with pricing power, such as diversified equity income and enhanced income. Strategies which can offer all-in yields are attractive, such as diversified global fixed income or high yield.

## **3. Ensure portfolio flexibility**

Increased volatility requires a broader and more flexible toolkit. Over the coming months, it will be critical to increase the precision of portfolio construction through a wider range of investment ideas, including actively managed strategies which can target more consistent investment outcomes. In equity allocations, this could mean taking exposure to specific styles or factors, such as quality or value.

For example, focusing on specific segments of the capitalisation spectrum, such as small or mid-cap companies, can help avoid concentration risks within the US market. Meanwhile, those who want to maintain exposure to the enduring technology theme might also consider a more value-orientated approach that can mitigate idiosyncratic risks associated with some of the mega-cap tech names.

Beyond equities, portfolio optimisation can benefit from a more dynamic approach across a wider range of asset classes, including alternatives. This can include the use of diversified investment approaches within asset classes, for example active duration management within fixed income allocations.



#### 4. Uncover uncorrelated sources of return

The necessity to preserve capital during periods of market turbulence supports a revitalised role for strategies that can deliver uncorrelated returns relative to equity and bond markets. In this regard, investors still have a broad toolkit of potential options at their disposal, including absolute return and market neutral strategies across asset classes, as well as contrarian, special situation, and multi asset options, which each have the ability to deliver differentiated returns. Private assets are also an increasingly important asset class for investors able to sacrifice liquidity.

#### 5. Balance bonds differently

While there remains a role for Treasuries in portfolios within risk-off environments, recent bond and currency market turbulence might lead investors to diversify their geographic fixed income exposures and take a more flexible active approach across the capital structure. The context of each investor's objectives and risks is key in such considerations, given the impact that variables like foreign exchange rates can have on overall portfolio risk and returns.

German Bunds were a key beneficiary of recent volatility in treasury markets, a dynamic which endorses an increased role for unconstrained active strategic bond strategies. Finally, with cash rates still elevated, short duration and liquidity strategies can perform well at the lower end of the risk spectrum.



# Contributors

---

Judy Chen

Patrick Graham

Thao Hua

Tony Lee

Toby Sims

Ben Traynor

## **Investment Writers**

Mark Hamilton

## **Edition Designer**

Oliver Godwin-Brown

## **Graphic Designer**

Toby Sims

## **Production Lead**

Seb Morton-Clark

## **Managing Editor**



## Important Information

This material is for Institutional Investors and Investment Professionals only, and should not be distributed to the general public or be relied upon by private investors.

This material is provided for information purposes only and is intended only for the person or entity to which it is sent. It must not be reproduced or circulated to any other party without prior permission of Fidelity.

This material does not constitute a distribution, an offer or solicitation to engage the investment management services of Fidelity, or an offer to buy or sell or the solicitation of any offer to buy or sell any securities in any jurisdiction or country where such distribution or offer is not authorised or would be contrary to local laws or regulations. Fidelity makes no representations that the contents are appropriate for use in all locations or that the transactions or services discussed are available or appropriate for sale or use in all jurisdictions or countries or by all investors or counterparties.

This communication is not directed at, and must not be acted on by persons inside the United States. All persons and entities accessing the information do so on their own initiative and are responsible for compliance with applicable local laws and regulations and should consult their professional advisers. This material may contain materials from third-parties which are supplied by companies that are not affiliated with any Fidelity entity (Third-Party Content). Fidelity has not been involved in the preparation, adoption or editing of such third-party materials and does not explicitly or implicitly endorse or approve such content. Fidelity International is not responsible for any errors or omissions relating to specific information provided by third parties.

Fidelity International refers to the group of companies which form the global investment management organization that provides products and services in designated jurisdictions outside of North America. Fidelity, Fidelity International, the Fidelity International logo and F symbol are trademarks of FIL Limited. Fidelity only offers information on products and services and does not provide investment advice based on individual circumstances, other than when specifically stipulated by an appropriately authorised firm, in a formal communication with the client.

Europe: Issued by FIL Pensions Management (authorised and regulated by the Financial Conduct Authority in UK), FIL (Luxembourg) S.A. (authorised and supervised by the CSSF, Commission de Surveillance du Secteur Financier), FIL Gestion (authorised and supervised by the AMF (Autorité des Marchés Financiers) N°GP03-004, 21 Avenue Kléber, 75016 Paris) and FIL Investment Switzerland AG.

UAE: The DIFC branch of FIL Distributors International Limited is regulated by the DFSA for the provision of Arranging Deals in Investments only. All communications and services are directed at Professional Clients and Market Counterparties only. Persons other than Professional Clients and Market Counterparties, such as Retail Clients, are NOT the intended recipients of our communications or services. The branch is established pursuant to the DIFC Companies Law, with registration number CL2923, as a branch of FIL Distributors International Limited, registered in Bermuda. FIL Distributors International Limited is licensed to conduct investment business by the Bermuda Monetary Authority. In Hong Kong, this material is issued by FIL Investment Management (Hong Kong) Limited and it has not been reviewed by the Securities and Future Commission.

FIL Investment Management (Singapore) Limited (Co. Reg. No: 199006300E) is the legal representative of Fidelity International in Singapore. This document / advertisement has not been reviewed by the Monetary Authority of Singapore.

In Taiwan, Independently operated by Fidelity Securities Investment Trust Co. (Taiwan) Limited 11F, No.68, Zhongxiao East Road, Section 5, Taipei 110, Taiwan, R.O.C. Customer Service Number: 0800-00-9911.

In Korea, this material is issued by FIL Asset Management (Korea) Limited. This material has not been reviewed by the Financial Supervisory Service, and is intended for the general information of institutional and professional investors only to which it is sent.

In China, Fidelity China refers to FIL Fund Management (China) Company Limited. Investment involves risks. Business separation mechanism is conducted between Fidelity China and the shareholders. The shareholders do not directly participate in investment and operation of fund property. Past performance is not a reliable indicator of future results, nor the guarantee for the performance of the portfolio managed by Fidelity China.

Issued in Japan, this material is prepared by FIL Investments (Japan) Limited (hereafter called "FIJ") based on reliable data, but FIJ is not held liable for its accuracy or completeness. Information in this material is good for the date and time of preparation, and is subject to change without prior notice depending on the market environments and other conditions. All rights concerning this material except quotations are held by FIJ, and should by no means be used or copied partially or wholly for any purpose without permission. This material aims at providing information for your reference only but does not aim to recommend or solicit funds /securities.

For information purposes only. Neither FIL Limited nor any member within the Fidelity Group is licensed to carry out fund management activities in Brunei, Indonesia, Malaysia, Thailand and Philippines.

GCT250623GLO