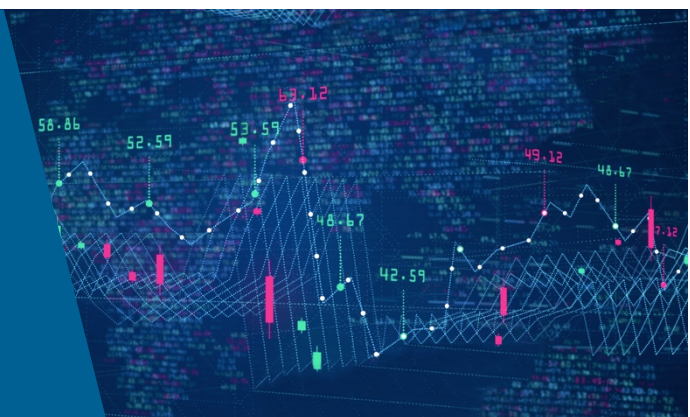


Global Market Outlook 2022

Catch-2022

Fidelity Australian Equities Fund

Paul Taylor



An upward trajectory, down under

Inflationary pressures are expected to gain ground as the economy reopens. The Reserve Bank of Australia (RBA) has not suggested any policy tightening, but when it does the process will be gradual. While uncertainty is likely to prevail in the short term, we still expect to find structural, growth-led winners at attractive valuations during 2022.

Key points

- Australia remained resilient throughout the pandemic, and it should remain an attractive place to invest, work, and study.
- There has been a notable acceleration in existing trends like e-commerce, which expands our investment universe.
- The resources sector, for example, has been bolstered by strong demand for commodities, and we think that the current market environment can aid those stock pickers with a robust process.
- We also like high-quality businesses with a sustainable competitive edge, strong free cash flow, and healthy earnings growth.

What is your investment outlook in 2022?

The expansionary monetary and fiscal measures undertaken by global economies offer a significant tailwind for the recovery. At the same time, the vaccination drive will facilitate economic activity, aid the resumption of travel and, most importantly, restore the quality of human lives. Australia has been relatively resilient throughout the pandemic, and we believe it will remain a preferred geography in which to invest, work, and study. We are currently in a transitional phase, and as the borders open, we are likely to see the emergence of significant trends, such as a pick-up in travel given stifled demand. Companies have delivered an encouraging reporting season and will increase their investments as the economy recovers.

What do you think could surprise the market in 2022, either positively or negatively?

We are witnessing a notable acceleration in existing trends, such as e-commerce, the digital delivery of food and beverages, cashless transactions, and working from home, which will continue to shape the future – both in 2022 and over the longer term. These trends expand our universe of investment opportunities, as more innovation and business models come to the market.

Which themes, sectors, or regions offer opportunities or potential risks?

We believe that three predominant areas warrant our attention. These include the resources sector, which has seen strong demand for commodities; longer-term trends that have accelerated through COVID-19 and are likely to stay; and industries that have been impacted during the pandemic but have not yet fully recovered. The portfolio is invested in large-cap, highly liquid blue-chip stocks. We think that the current market environment can aid stock pickers with a strong process and will look to upgrade the portfolio when companies that may have been on our buy list are available at attractive valuations.

Within your portfolio, where do you have the highest levels of conviction, and which areas are you avoiding?

We remain mindful of company fundamentals and focus on the experience and competence of management teams. The strategy has a preference for high-quality companies with a sustainable competitive edge, strong free cash flow generation, and robust earnings growth. For example, we own Domino's Pizza Enterprises, a pizza-chain operator with a robust franchise model offering attractive growth opportunities through store expansions and higher same-store sales. It has healthy long-term growth prospects driven by its solid store roll-out strategy. Moreover, it also benefits from an attractive industry structure and efficient supply chain given its focus on technology, such as mobile ordering, as well as its management team, which is strategically focused on innovation.

At the same time, we are underweight companies that trade at high valuations and will lag their peers in the long run due to replicable business models.

Do you expect sustainability factors to influence returns, and how is this reflected in your portfolio?

We see sustainability analysis as an essential component of our fundamental analysis, which can add meaningful value over the long term. Environmental, social, and governance (ESG) factors are central to the strategy's research and investment process. Also, ESG issues mean we avoid certain stocks, which is in line with Fidelity's policies.

Since its launch, the strategy has been focusing on governance and is now concentrating on environmental and social elements amid rising awareness of ESG factors. In addition, the strategy adopts a positive engagement approach whereby we discuss ESG issues with the management teams of companies in which we invest or are considering an investment. We use the information gathered during these meetings to inform our investment decisions and encourage businesses to improve their procedures and policies.

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