Global Market Outlook 2022

Catch-2022

Fidelity Global Demographics Fund

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Cutting through the noise: investing for the long-term

Demographics are a structural, visible, long-term megatrend with compelling investment opportunities. By adopting a quality-focused, bottom-up fundamental approach, the strategy is well positioned to navigate 2022 and continue delivering relatively attractive alpha for investors.

Key points

- While near-term inflationary pressures, the interest-rate environment and the backdrop in China remain key considerations, we believe the long-term demographic trends of higher life expectancy, an expanding middle class, and population growth will continue to create attractive long-term opportunities.
- The pandemic has accelerated many of the established trends, like digitalisation and automation, as well as a greater focus on healthcare and wellbeing. The strategy has a large exposure to these themes, and we expect it to benefit from the winners and deliver strong growth.
- The strategy has a well-balanced portfolio, with a focus on good-quality businesses that can grow and compound over time. This is underpinned by demographic trends, which should continue to deliver relatively attractive returns to investors.

What is your investment outlook in 2022?

In 2022, we will likely see the momentum from vaccine rollouts and re-opening begin to ease. When coupled with rising inflationary pressures and questions about the interest rate environment, selectivity will be paramount, particularly in pockets of the markets where valuations look more stretched, and leadership narrows. Investors will also closely monitor China – having been among the first in and first out of lockdowns, its performance can provide clues to the trajectory of other markets. China's regulatory landscape could also have significant ramifications. In line with our bottom-up, fundamental approach, we avoid making macro calls, and our focus remains on owning good businesses that can grow and compound over time. These will be underpinned by longer-term demographic megatrends, such as rising life expectancy, a swelling middle class, and population growth.

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

As thematic investors, we believe that an intense focus on near-term events could mean that investors underestimate long-term trends. As such, we avoid making macro calls and focus on where we can add value with our bottom-up, fundamental approach to investing that focuses on identifying businesses that will benefit from long-term demographic megatrends.

Nonetheless, inflation and the interest rate environment will be key areas to monitor as we move into 2022, as they could, for example, have important ramifications for areas such as consumer spending. Elsewhere, we continue to assess developments in China. From a regulatory perspective, the country's focus has been on common prosperity and creating a more level playing field regarding competition, which should support consumption in the long run. However, these policies could lead to short-term spikes in volatility.

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

The pandemic has accelerated many of the long-term trends that were already in place, like digitalisation and automation, as well as a greater focus on healthcare and wellbeing. The strategy has a large exposure to these themes, and we expect it to benefit from the winners in the space. Consumer spending should remain well supported, with growth opportunities in COVID-recovery laggards, such as travel, where cross-border mobility restrictions continue to ease.

However, inflationary pressures and the interest rate environment could dent some of these prospects. Therefore, we will focus on high-quality names with solid pricing power and resilient market share that can pass on costs to the consumer. Financials is also an area that offers attractive opportunities. From a regional perspective, China remains the key market to monitor. Overall, selectivity will remain paramount.

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

We feel that companies operating in the automation and robotics space remain particularly attractive, as employers continue to offset labour risks and a structurally shrinking workforce amid rising dependency ratios with automation and technologies aimed to enhance productivity. Sustainability considerations are also front of mind. As the global population grows, making more sustainable use of our finite resources while meeting rising needs remains paramount. This creates an attractive backdrop for companies providing, for example, energy-efficient solutions. Overall, the strategy remains well diversified across its three sub-themes – namely longer lives, which is higher life expectancy; better lives, reflecting expanding middle-class wealth – particularly in emerging markets; and more lives, that is population growth. The well-balanced nature of the portfolio means we are well equipped to navigate what remains a challenging market backdrop and continue to deliver relatively attractive returns for investors.

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

Sustainable investing is core to our quality-focused and fundamentals-driven investment process. We believe that companies with robust sustainability practices will, over time, enjoy lower capital costs and higher relative returns. As a result, the strategy has historically scored strongly from a sustainability standpoint. We continually monitor the strategy's holdings, ensuring the companies we own are environmental, social, and governance (ESG) leaders in their respective markets. For those companies making good progress in that direction, we believe that active engagement is vital. As we look for new opportunities or reassess our investment thesis for current portfolio holdings, sustainability considerations are integral to our investment philosophy. At the same time, they also play a critical role in the stock selection and portfolio construction process.