


From the desk of

James Abela and Maroun Younes

Portfolio Managers, Fidelity Global Future Leaders Fund

March 2022

As the world began to focus on recovery as the Covid-19 crisis fades, we are now faced with increased geopolitical risk. Macro settings are still in place for rising interest rates and greater valuation discipline across most asset classes while financial conditions still remain quite generous in the context of history.

One of the more obvious trends is the decline of many momentum themes which are now succumbing to greater investor scrutiny. These include names in the buy-now-pay-later (BNPL) sector, internet-connected exercise networks (such as Peloton), e-commerce platforms (such as Shopify, HelloFresh, DraftKings and Carvana), loss-making ESG or solar-related supply chains (such as Sunrun), real estate portals (such as Zillow Group), and some of the more speculative areas of the market, such as Robinhood Markets or AMC Entertainment.

These higher risk elements of the global mid-cap equity market have experienced significant multiple de-ratings over the last six months. Some of this was a necessary valuation readjustment after a few years of risk being priced at inappropriately low levels, while in other cases this presents opportunities as the market focus shifts to the very short term and loses sight of some of the structural winners of the future.

The other side of these trends are new themes that are emerging such as the structural growth of electric vehicles, which is creating significant demand across the value chain in resources, component parts, new materials and semiconductors. Cyclical recovery is evident in earnings and multiples for the energy, financials and agricultural sectors.

Further, those reasonably priced high-quality businesses are holding up relatively strong in a market that is increasingly nervous and uncertain. One of our long-term holdings has been Arista Networks, which has been strong given the solid sustainable growth and reasonable valuations in the current market environment.

Investment portfolios will likely need to continue to stay balanced between long-term growth winners and exposure to the strong economic recovery through energy, resources, industrials, consumer, financials and technology. The intersection of quality and value is where we think there will be some attractive opportunities. We are still believers that investor focus will shift towards the following over the next 12 months:

- pricing power (given rising input costs, inflation, increasingly tight labour markets)
- sustainability and ESG (as society expectations rise, credit costs rise and competitive pressures intensify)
- valuation discipline (given there are either high or record asset prices in many sectors)
- duration (what is really driving company growth – is this cyclical or structural?).

Stock picking remains absolutely critical along with a strong valuation discipline. The widespread earnings upgrades will likely soften over the next 12 months as competition for capital and customers intensifies and higher confidence of business to invest. This is likely to drive the market higher during financial year 2021/22 despite concerns of inflation and higher interest rates. However, we would caution that given the rapidly changing macro conditions, a heightened level of volatility might persist for the remainder of the year.

fidelity.com.au