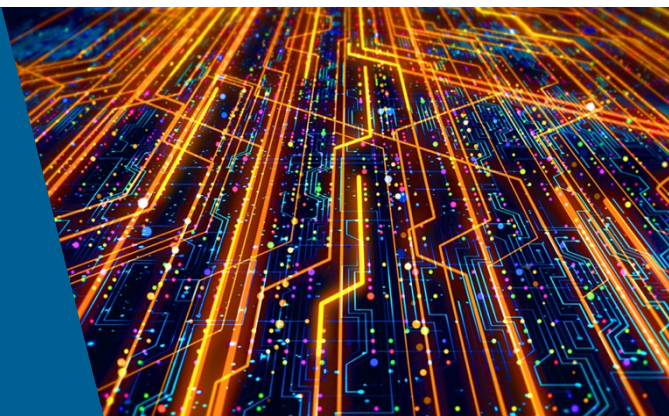


Global Market Outlook 2021

Navigating the new reality

Fidelity Global Equities Fund

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Known unknowns add to the uncertainty

We believe that there are a number of unknowns impacting market sentiment today, and finding those investments that balance returns with doing the right thing is not always easy. Disruption, management quality, pricing power, moats, and the societal impact of the companies that we invest in are all issues that we need to incorporate in our thinking.

Key points

- Flexible mindset to navigate changing times
- Winners of the future will be different from those in the past
- Focus remains on pricing power, management quality and moats

What is your investment outlook for global equities in 2021? To what extent is this tied to virus-related developments?

The global economic backdrop remains uncertain with the second wave of COVID-19 infections upon us and another round of lockdown measures in some countries. While the unprecedented financial and monetary stimulus packages announced by governments worldwide have so far provided support, there are number of unknown variables which continue to weigh on market sentiment. The questions related to resolution of the COVID-19 crisis and availability of a vaccine, policy uncertainty emanating from the new US administration, Brexit related uncertainty, the absence of a deal to extend unemployment assistance, impact on US consumer strength and the US dollar status as a safe haven, are still unanswered.

Going forward, impacts of 'war time' government stimulus packages and central bank balance sheet expansion on the case for inflation versus deflation will be of paramount concern. This 'regime shift' will have implications for the investment case in the US versus the rest of the world, value versus growth, Europe versus the US, and developed markets versus emerging markets. Investors and asset allocators will need to maintain a flexible mindset to successfully navigate these changing times. The old saying, 'Past performance is not a guide to future returns', has probably never been truer. With all the seminal changes in the world around us, it's highly probable that the winners of the future will be very different from those of the past.

What do you think could surprise the market in 2021?

One of the positive surprises would be that the health care companies are able to develop a vaccine that works and roll it out globally in quick succession, and/or the virus disappears allowing us to go back to work. This blue sky scenario is likely to see a surge in *baofuxing xiaofei* (Chinese term for revenge buying) by shoppers, a retail boom and increased travel. We have already seen the beginnings of this on the back of recent vaccine announcements.

The market sentiment will continue to remain downbeat, the longer it takes to find a cure. The onslaught of virus and subsequent recession have already flung open Pandora's box of issues; too much debt, too little growth, significant job losses in service-related employee-centric industries, and it may aggravate further.

The Fund's allocation in either scenario is diametrically opposed, and we believe that a diversified portfolio focused on stock picking is how we are positioned with very limited macro/sector and currency bets. Given the uncertainty at this point we do not feel we are being paid sufficiently to take any macro factor risks.

What themes, sectors or regions would offer opportunities or potential risks in a post COVID-19 world?

While the sector and regional positioning is an outcome of bottom-up sector and regional allocation, we believe the portfolio remains well positioned to perform well in different market environments. The Fund provides exposure to a number of early cycle industrial companies, especially those focused on industrial automation, some consumer discretionary brands, home entertainment games, telemedicine, exchanges and internet related names.

The Fund remains balanced with allocation to phase one; virus stocks such as video games and urgent healthcare equipment stocks; phase two; recession stocks, those with limited earnings / cash flow risks like consumer staples, food retailers or utilities. And finally, phase three; recovery stocks which are generally completely different from phase one and two and are geared to an economic and earnings recovery.

Within your portfolio, what areas have highest convictions and what areas are you avoiding?

We remain committed to a bottom-up stock picking approach and continue to follow a three-pronged investment approach to build a global portfolio of uncorrelated stocks, with a unique focus on management culture. Our aim is to leverage Fidelity's global research capabilities to identify attractively valued businesses with unique products and services, operating in a good industry structure and led by quality management teams with an eye on sustainability and predictability of returns.

The Fund is well-diversified across a range of industries and sectors, with regional and sectoral positioning an outcome of where we find opportunities. At a sector level, the Fund remains overweight in materials, financials and information technology stocks. The materials holdings include exposure to gold, which serve as an inflation hedge; financials exposure is diversified across a number of themes in insurance, diversified financials, exchange operators; and technology names include software players, hardware names and semiconductor equipment makers. The Fund also has exposure to clean energy names and renewable players with positive tailwinds.

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

We believe that ESG analysis cannot be disaggregated from financial analysis as it has a direct impact on fundamentals. Sustainability factors are therefore fully integrated into the analysis conducted by our research team. We consider ESG risks and opportunities through the stock selection and portfolio construction process and are aware of holdings perceived as ESG laggards.

In addition to Fidelity-wide exclusions, we adhere to certain ground rules when investing in stocks. When deciding on whether to exclude a company we are guided by international conventions as well as our firmwide Exclusion List. The screening rules that we apply to our strategy include tobacco stocks, defence and weapons, adult entertainment, online gaming companies which promote violence, and Russian stocks, as low corporate governance standards and rule of law makes it difficult to estimate downside risk.

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