



Global Macro Outlook

Entering a hard power world

Fidelity Multi Asset
Global Macro and Strategic Asset Allocation Team
January 2026



Glossary

AI	Artificial intelligence	FOMC	Federal Open Market Committee
APxJ	Asia-Pacific ex-Japan	FX	Foreign exchange
AT1	Additional Tier 1 bonds	GDP	Gross domestic product
B/S	Balance sheet	HICP	Harmonised Index of Consumer Prices
BOE	Bank of England	HY	High yield
BOJ	Bank of Japan	IG	Investment grade
CBO	Congressional Budget Office	IT	Information technology
CH-AI	China Activity Indicator	JCB	Japanese government bonds
CPI	Consumer Price Index	LATAM	Latin America
DM	Developed market	MENA	Middle East and North Africa
EA	Eurozone area	MOM	Month-on-month
EC	European Commission	OECD	The Organisation for Economic Co-operation and Development
ECB	European Central Bank	P/E	Price-to-earnings
EM	Emerging market	PBOC	People's Bank of China
EMD	Emerging market debt	PCE	Personal consumption expenditures
EMEA	Europe, the Middle East and Africa	PMI	Purchasing Managers' Index
EV	Electric vehicle	PPI	Purchase Price Index
FCI	Financial condition index	VIX	CBOE Volatility Index
Fed	US Federal Reserve	YCC	Yield curve control
FI	Fixed income	YOY	Year-on-year
FLI	Fidelity Leading Indicator		

Global Macro Outlook

Entering a hard power world

- **Geostrategic big picture:** The global order is shifting from rules and institutions toward geography and power. The US is increasingly acting as a classical hegemon, pressuring chokepoints with high leverage over territory, trade corridors and energy routes. **In our node-based framework, Greenland, Hormuz, Panama and the Red Sea matter because they sit upstream of global supply chains.** Near-term, the key risks are US action in Iran and Greenland: a strike on Iran raises the odds of Hormuz disruption, while a forceful move in Greenland could meaningfully damage the Transatlantic alliance.
- **SAA implications of fragmentation:** Strategic fragmentation is lifting macro and market volatility, while the equity/bond correlation is becoming less reliable, **weakening the defensive role of duration in a 60/40. We see a lower-return, higher-variance outlook for balanced portfolios.** To rebuild resilience, **broaden the growth engine** with active management, regional/sector breadth, income (notably HY), and selective private assets; and **strengthen defences** using dynamic duration, downside protection, alternative risk premia, with **intentional currency management and gold** as explicit diversifiers.
- **US:** We expect the US to run hot in 2026, driven by strong investment and a front-loaded fiscal impulse from the One Big Beautiful Bill. **The AI-led capex boom remains central to our reflation view**, with spillovers into other sectors and wealth effects supporting consumption. We also expect broader growth as fiscal easing and state intervention focus on affordability ahead of mid-terms. A more dovish Fed leadership and voter rotation should support further easing (**we expect at least three cuts this year**). Key watchpoints are Fed independence and inflation; we assign a 20% risk of a stagflationary shock if independence is undermined.
- **Europe:** Euro area growth remains soft. German fiscal is supportive, but trade tensions with the US and China are key risks. While not our base case we see heightened risk that the EU threatens to enact the Anti Coercion Instrument to find a compromise on Greenland, leading to an escalation of tensions and uncertainty. **Inflation risks are skewed to the downside** due to excess goods supply from East Asia, and wage-tracker signals support continued services disinflation. **We expect the ECB to hold near term, then cut as an inflation undershoot becomes sustained.** For the UK, we expect three BoE cuts, more than priced, as labour weakness meets faster disinflation.
- **Asia:** China should sustain steady momentum in 2026, with resilient exports and a still-divergent growth mix until domestic sentiment improves. **We expect “controlled stabilisation” around ~4.5% via incremental, reactive support rather than a large stimulus.** In Japan, higher political volatility is intensifying fiscal concerns; expansionary policy plus wage-led reflation could push the BOJ to normalise faster. The rest of Asia will continue to experience **divergence in AI and non-AI related recovery**, but the gap will likely close as the recovery broadens.
- **TAA views:** We have a positive outlook for risk assets due to resilient earnings and policy support. Downside tail risks have reduced, but with much good news already priced in, selectivity remains important. **We are overweight equities and government bonds, and cautious on credit.** We prefer emerging market assets broadly.

Source: Fidelity International, January 2026.

2026 Growth forecasts

We remain optimistic on the US outlook vs consensus and shift to a balanced view on China and Japan as consensus catches up to our initial upside view

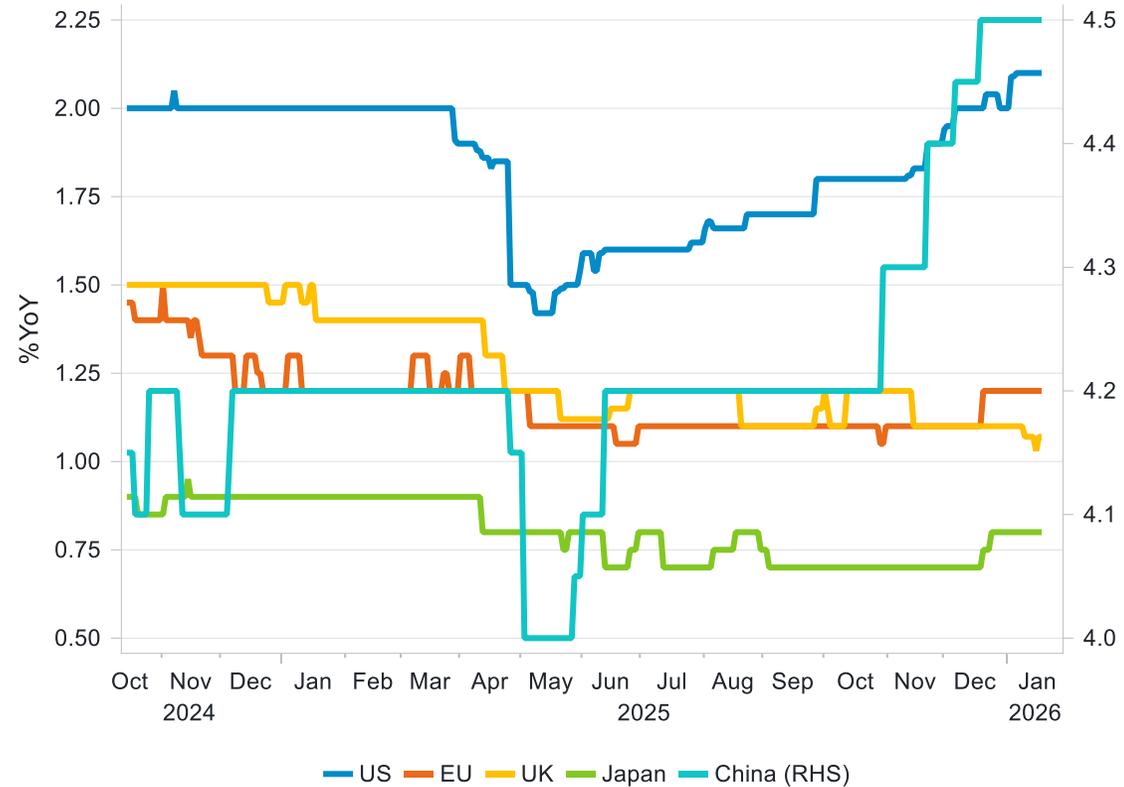
2026 Growth (%YoY)	BBG Consensus*	Fidelity Upside Case	Fidelity Downside Case	Risk Assessment vs Consensus
Global	3.4	3.9	2.6	Balanced
Developed markets	1.5	2.1	0.8	Balanced
US	2.1	2.8	1.5	Upside
Eurozone	1.2	1.7	0.6	Balanced
UK	1.1	1.4	0.5	Downside
Japan	0.8	1.3	0.5	Balanced
Emerging markets	4.6	5.1	3.8	Balanced
China	4.5	5.0	3.5	Balanced
India	6.5	7.2	6.0	Balanced
Brazil	1.7	2.8	1.5	Upside
Mexico	1.3	1.5	1.0	Downside
Turkey	3.5	3.5	2.5	Upside
Indonesia	5.0	5.1	4.3	Balanced

Source: Fidelity International, Bloomberg, January 2026. Note: these scenarios and risk assessment are not intended to be exact growth forecasts, but rather illustrations of potential outcomes based on particular assumptions about a number of variables, including supply side risks, monetary and fiscal policies and associated multipliers, corporate and consumer behaviour. Given significant uncertainties related to how the cycle might evolve, these scenarios are subject to change. DM, EM and global aggregates are calculated including only countries that appear in the table, giving rise to potential differences vs aggregate consensus numbers quoted on Bloomberg, which include a wider universe. For India we use Fiscal year 2027 numbers. We will be revising growth numbers and risk assessment continuously, as signals evolve, and more information becomes available *BBG consensus as of 19 January 2026.

Global growth and inflation consensus forecasts for 2026

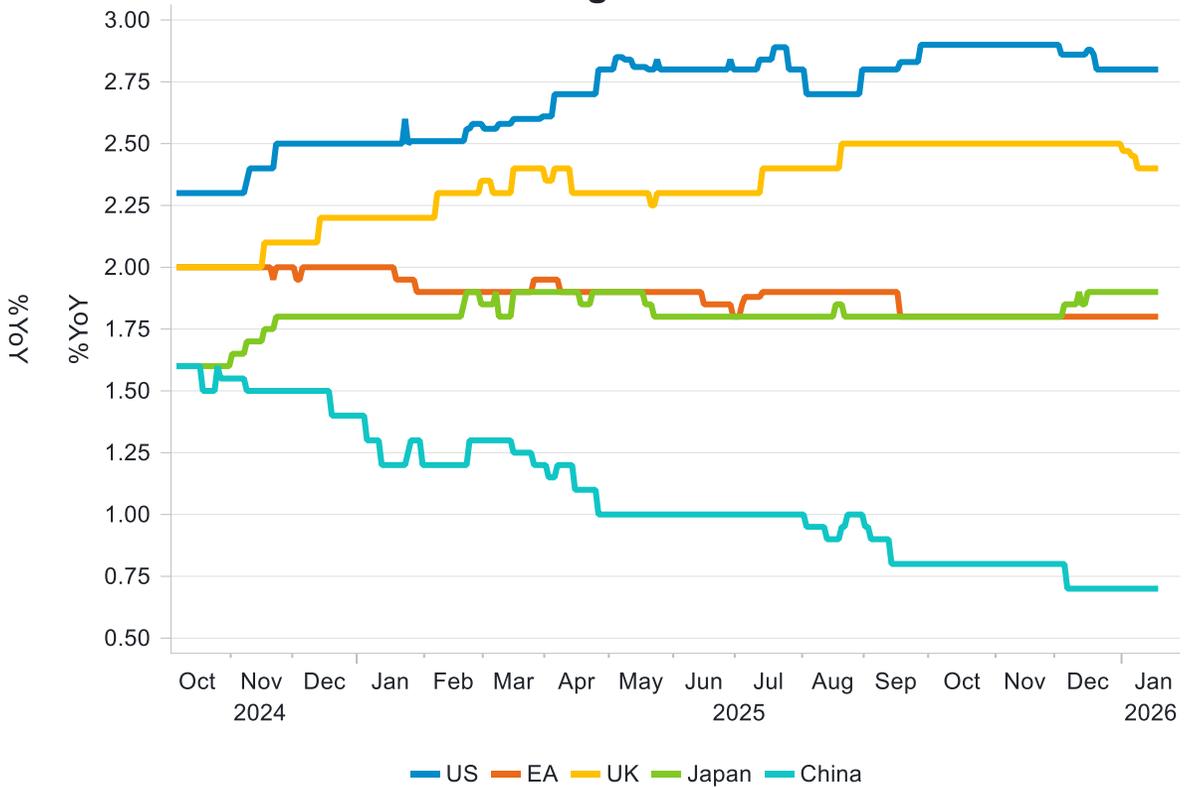
Global growth outlook is turning more constructive on balance, while inflation paths remain uneven

2026 real GDP growth Bloomberg consensus forecast



Source: Fidelity International, Macrobond, Bloomberg, January 2026.

2026 CPI inflation Bloomberg consensus forecast

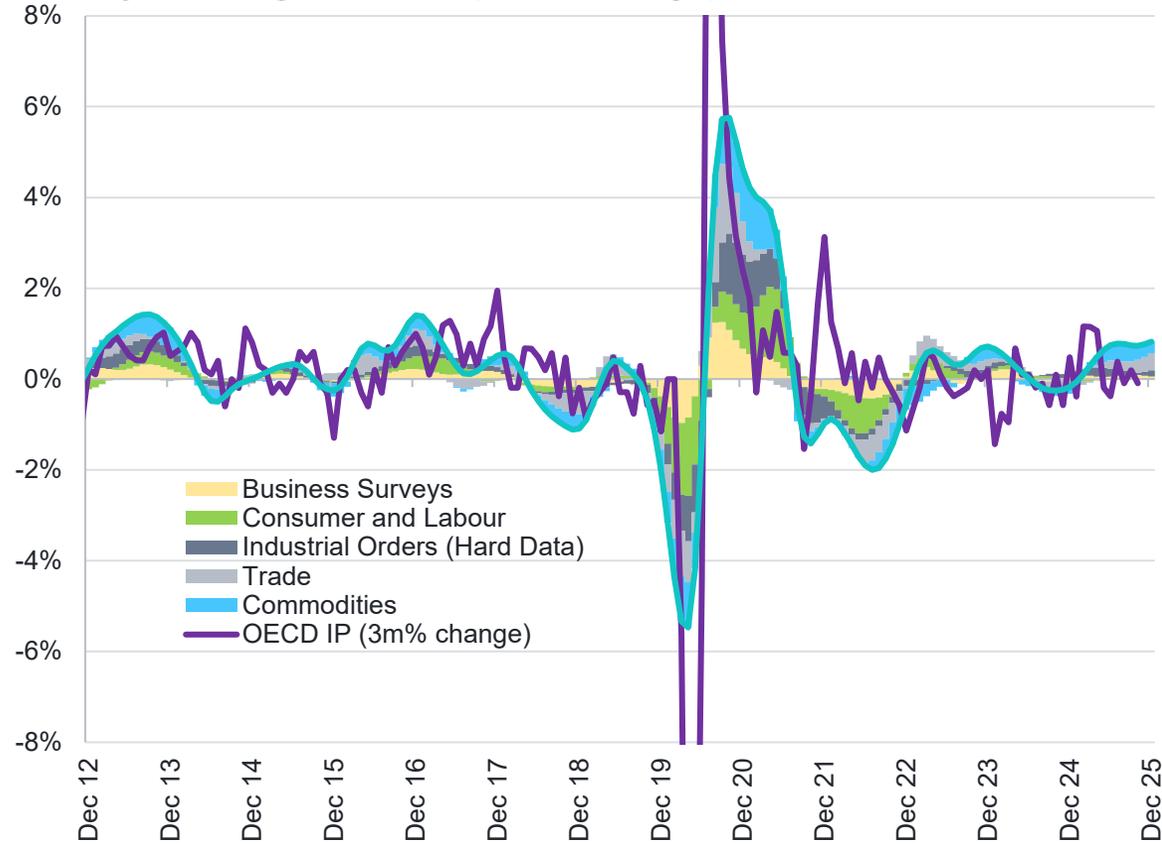


Source: Fidelity International, Macrobond, Bloomberg, January 2026.

Global leading indicators

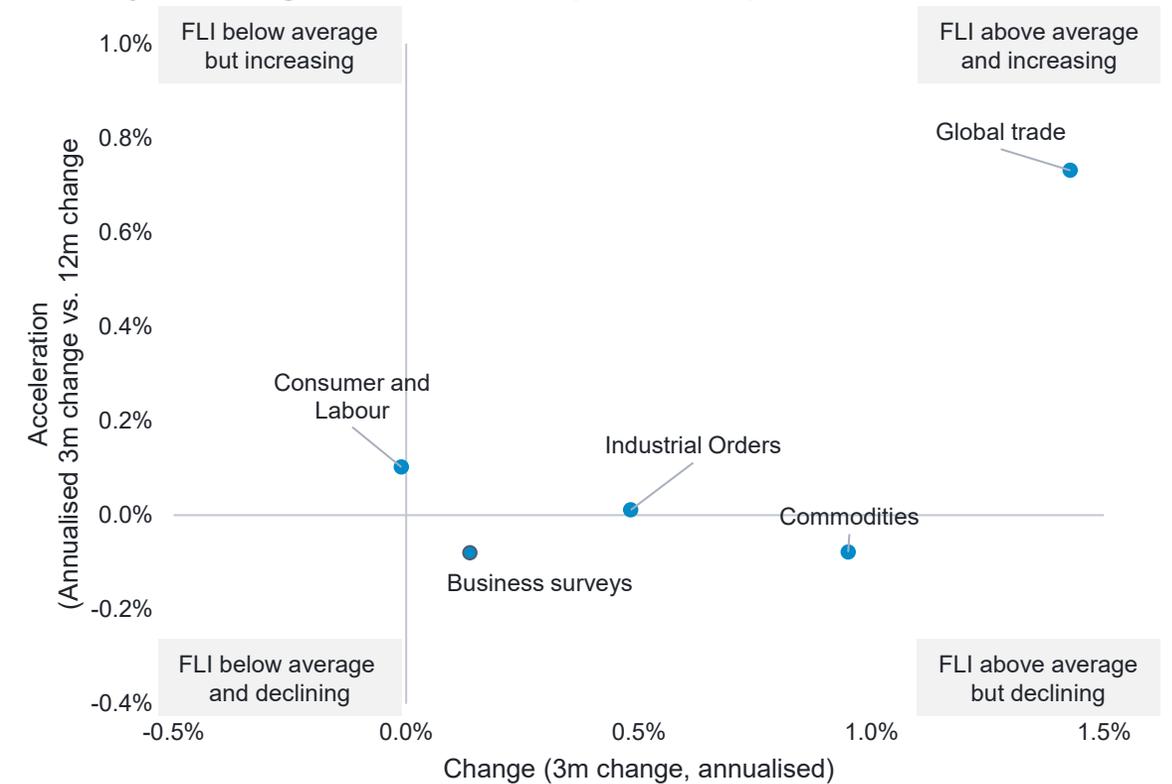
FLI remains upbeat indicating resilience in global industrial cycle

Fidelity Leading Indicator (3m% change) vs OECD IP



Source: Fidelity International, FIL Global Macro Team calculations, Haver Analytics, January 2026.

Fidelity Leading Indicator: Components split



Source: Fidelity International, FIL Global Macro Team calculations, Haver Analytics, January 2026.

The Geostrategic Big Picture

Mapping the geoeconomic fault lines of the new world order

Geopolitics takes centre stage at the start of the year

Our medium-term scenario of ‘strategic fragmentation’ appears to be taking hold

We started with “blanket tariffs” but are now moving towards “strategic fragmentation”

	China isolation	Blanket tariffs	US isolation	Fragmentation
Description	<ul style="list-style-type: none"> Disconnect China from ROW. US coerces ROW to impose China tariffs/barriers in exchange for market access. 	<ul style="list-style-type: none"> US reverts to high ‘reciprocal’ tariffs, effectively shifting to isolationism Potential variant: Fortress NA where Canada & Mexico align with US tariffs 	<ul style="list-style-type: none"> US actions seen as neo-imperial ROW sees China as a stable alternative EU & China integrate to offset US tariffs 	<ul style="list-style-type: none"> Shift from liberal order to hard-power world Hemispheric dominance shaped by US-China rivalry Europe decouples from the US
Biggest loser and macro implications	<ul style="list-style-type: none"> China: Severe growth shock given export dependency 	<ul style="list-style-type: none"> US: Stagflationary World: Loss of key market and supply chain link 	<ul style="list-style-type: none"> US: Strategic failure, stagflationary shock EA periphery: Deflationary, lose access to multiple markets 	<ul style="list-style-type: none"> World: Lower trade volumes, though higher bilateral trade among partners Higher risk premium
Relative winners/losers	<p>Winners: China competitors (Japan, SK, Taiwan, Germany, India)</p> <p>Losers: China-linked supply chain (Vietnam, Cambodia, Myanmar, etc.)</p>	<p>Winners: US allies (Canada, Taiwan, UK, Japan, etc.)</p> <p>Losers: China and allies with high export dependence (EMAX)</p>	<p>Winners: China, China integrated (Cambodia & Myanmar, Vietnam)</p> <p>Losers: US, peripheral DMs (UK, Japan, SK, Taiwan)</p>	<p>Winners: Nations with large domestic markets, large military</p> <p>Losers: Open economies on the periphery of blocks, low military</p>
Final US effective tariff rates	15-20% range: China (+60%), 25% sector tariffs and 10% on ROW with exemptions	>40%: Liberation day tariffs, higher tariffs for China	>40%: Same as Blanket tariffs scenario	~10-15% for US allies, higher tariffs for non-allied blocks

Source: Fidelity International, FIL Global Macro team, January 2026

The three R's of the US' grand geoeconomic strategy

Retrench, rebuild, and repair

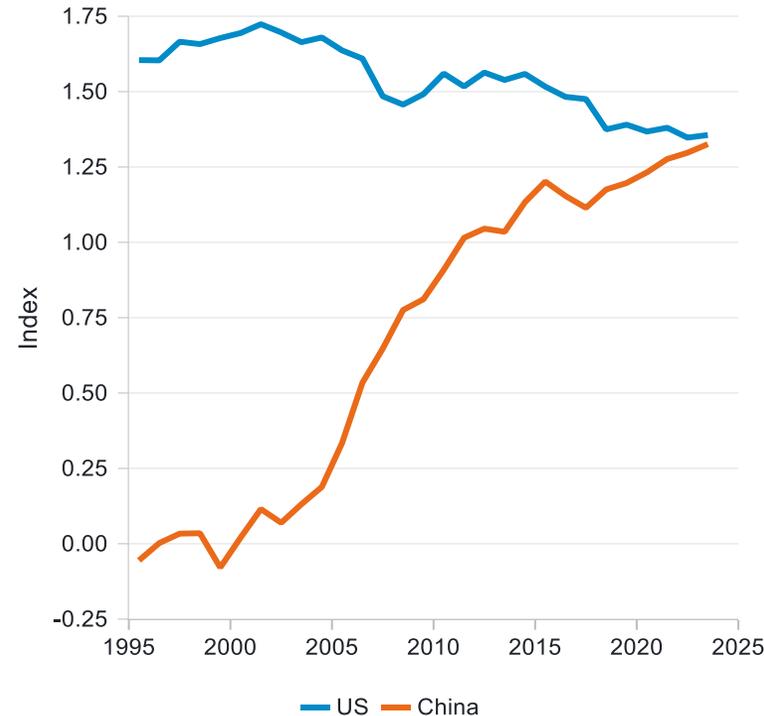
Retrench to a more prescribed 'sphere of influence'

- **Core:** North America
- **Near abroad:** LatAm and control over strategic chokepoints (Panama, Greenland, SoH, etc.)
- **Peripheral "client states":** UK + Pacific Rim (Japan, South Korea, Taiwan)
- **Discarded allies:** Ukraine, India, Australia, EU (??)

Note: SoH = Strait of Hormuz
Source: Fidelity International, January 2026

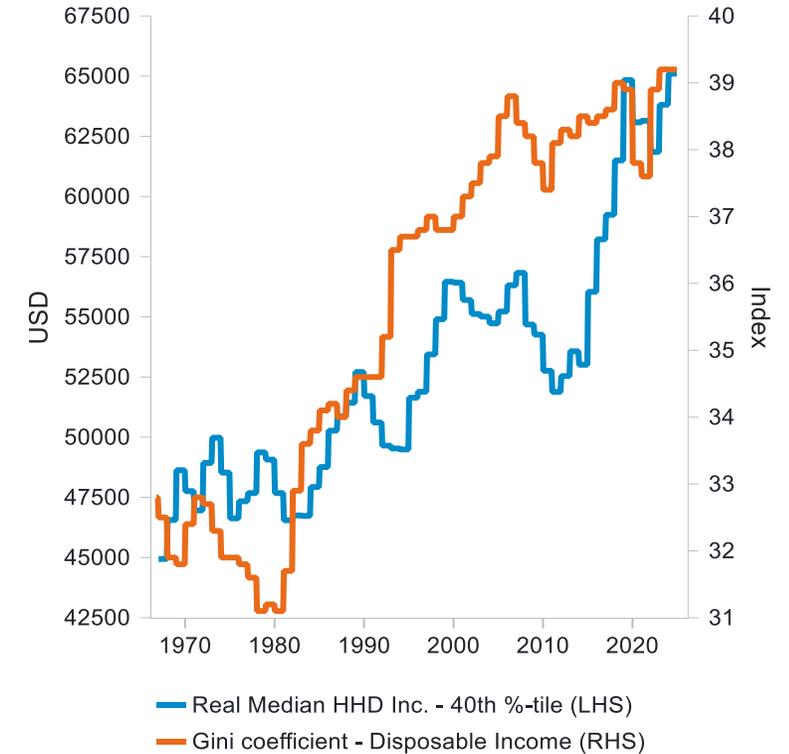
Rebuild a manufacturing industrial base Key industries: Chips, ships & arms

Economic Complexity Indices



Source: Fidelity International, Macrobond, OEC, January 2026.

Repair a left behind the middle class



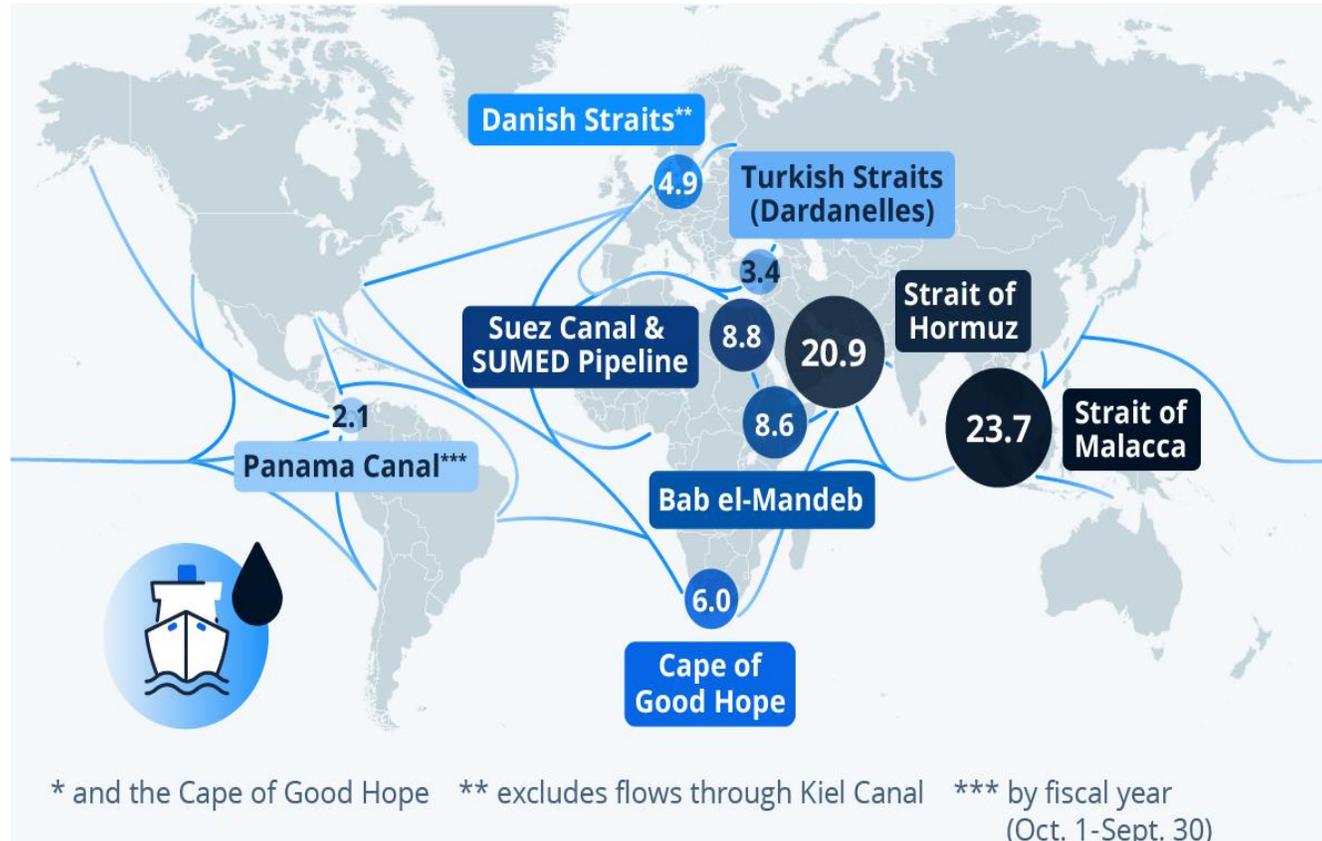
Source: Fidelity International, Macrobond, BLS, USCB, NAR, FSOLT, January 2026.

Panama, Greenland, SoH and the Red Sea corridor are not isolated theatres

They are chokepoints that sit at center of global trade & energy flows

Global oil shipments depend on Major Chokepoints

Volume of crude oil and petroleum liquids transported through world chokepoints* in 2023 (million barrels per day)



Source: Fidelity International, EIA, Statista, January 2026

Geoeconomic chokepoint analysis from US perspective

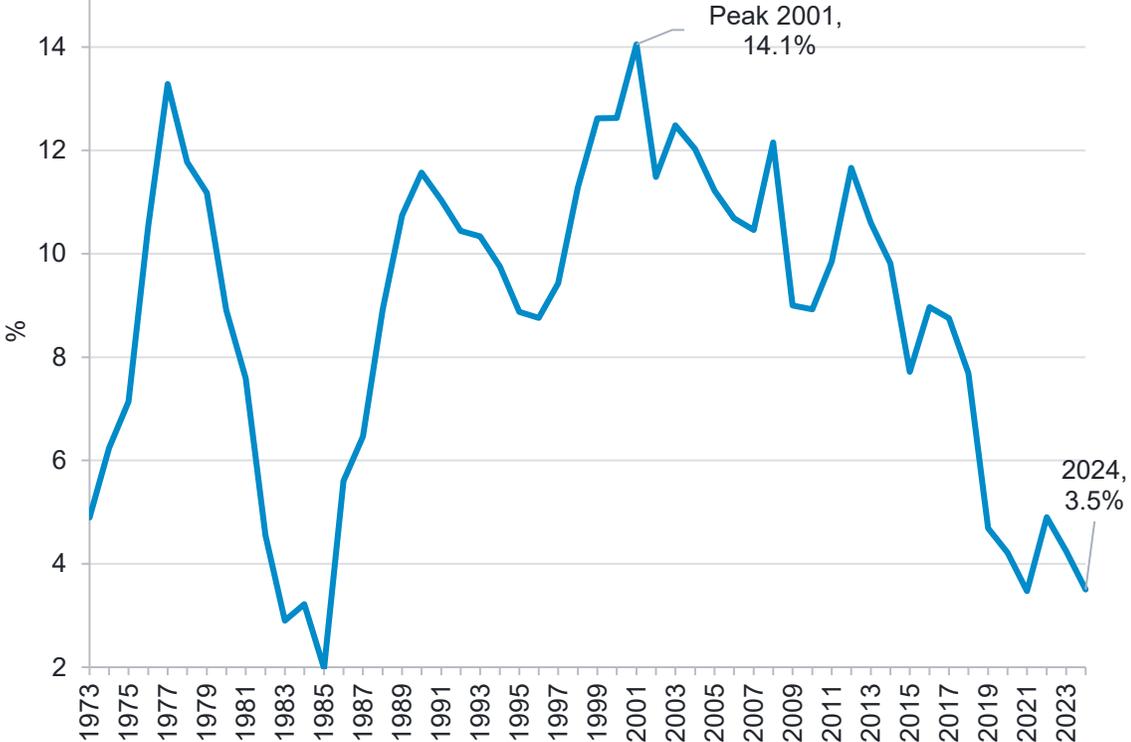
Global Chokepoints	Status	Notes
Danish Straits	US/NATO-dominated	
Panama Canal	Increasingly US-dominated	Recent commercial deals and potential Supreme Court ruling would move the canal decisively into America's orbit.
Turkish Straits	US/NATO-dominated	
Strait of Hormuz	Contested	Recent Iranian protests make Iran vulnerable to attack. Regime change would firmly move the Strait into US orbit.
Cape of Good Hope	Contested/China-leaning	Recent military drills between SA, Iran and CH, solidifies SA's trend.
Bab EI-Mandeb	Contested	Houthi presence continues to make this Strait dangerous for Western shipping.
Strait of Malacca	US-dominated	
Suez Canal	US-dominated	

Source: Fidelity International, January 2026

Iran update: We continue to believe the US views the current unrest in Iran...

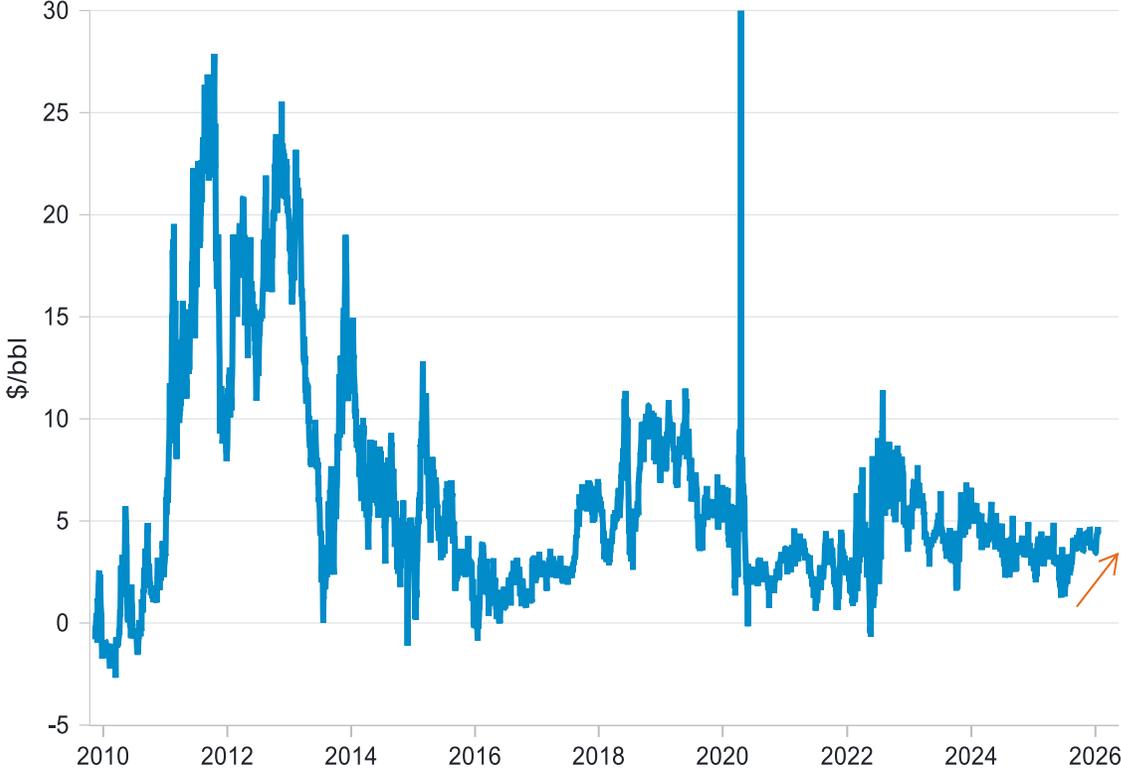
...as a golden opportunity to radically regain geostrategic control over a key global trade artery

US dependence on oil flows through the SoH are near ATLs
 Persian Gulf imports as a share of US petroleum consumption



Note: SoH = Strait of Hormuz, ATLs = all time lows
 Source: Fidelity International, EIA, January 2026

Brent-WTI spread could widen on SoH disruption risks

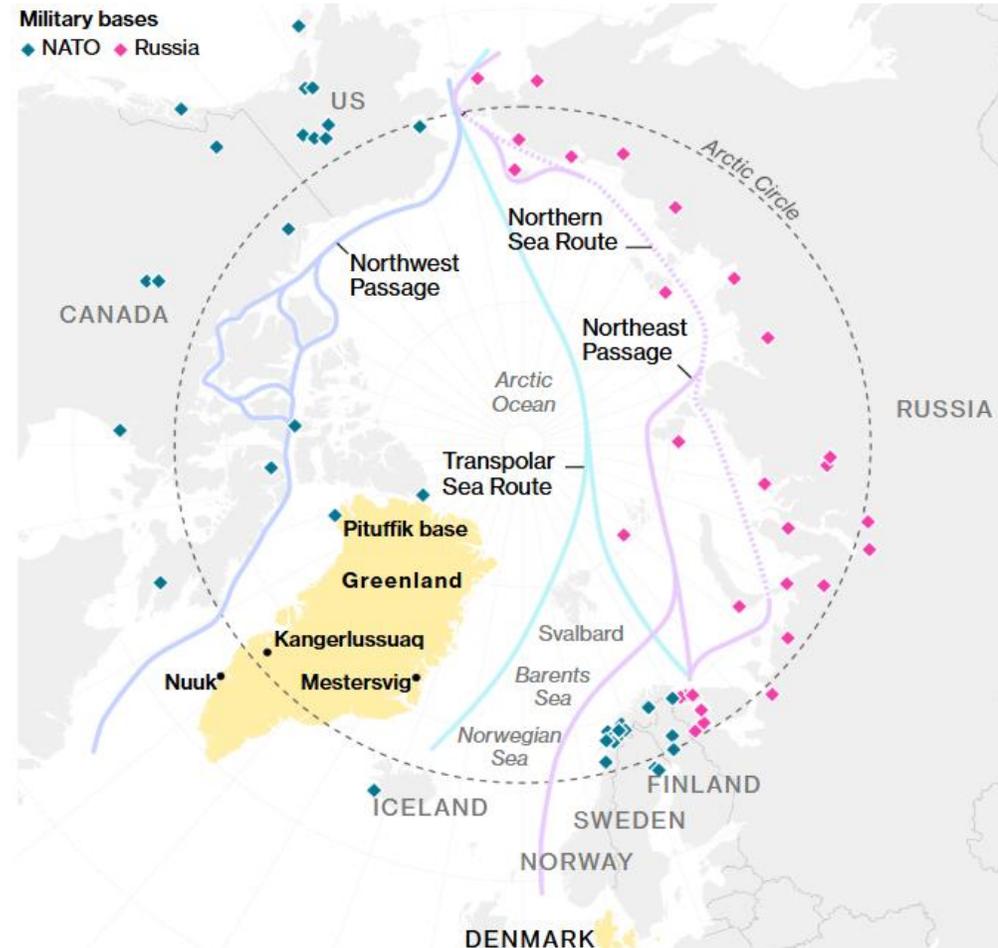


Note: SoH = Strait of Hormuz
 Source: Fidelity International, Bloomberg, Macrobond, January 2026.

Overemphasis on Greenland's mineral resources misses its geostrategic value

The US' interest in Greenland isn't new, with 3 prior attempts to acquire it in 1867, 1910 and 1946

Arctic sea routes becoming strategically important



Source: Fidelity International, Bloomberg, International Institute for Strategic Studies, January 2026.

US desire for Greenland driven by combination of resource nationalism, geostrategy and Trump's personal political goals

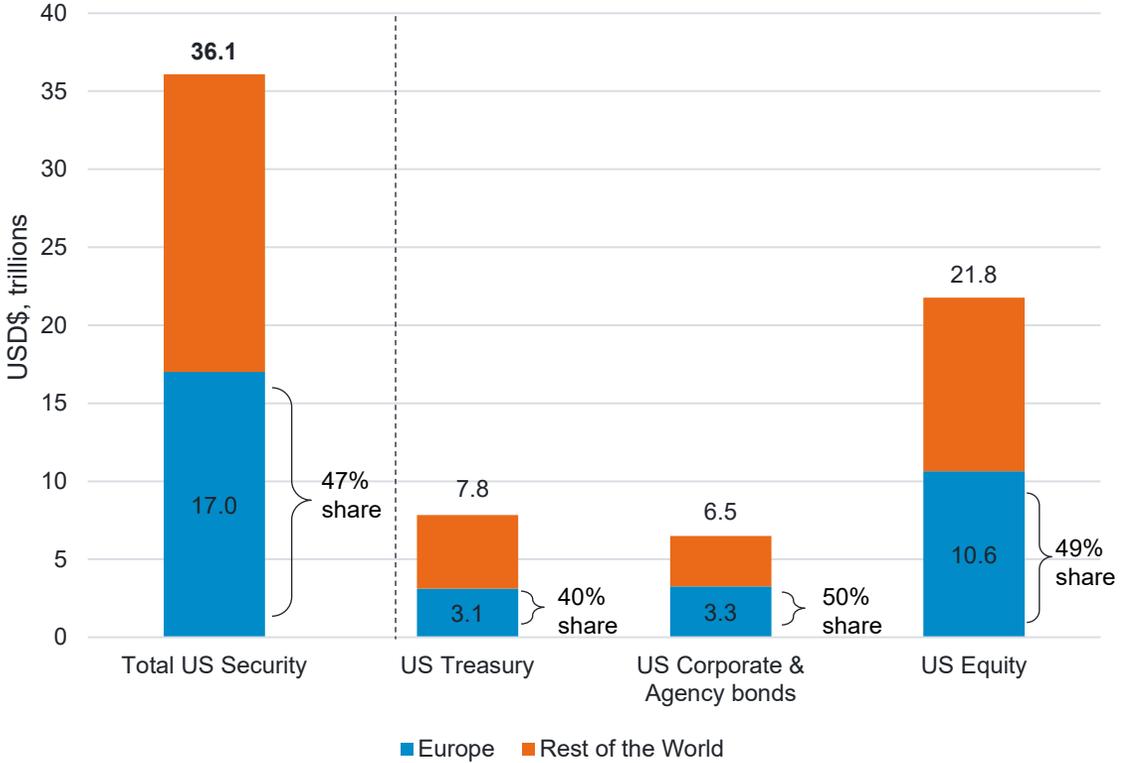
Scenarios	Summary	Economic corollaries
US theatre with ownership/EU buckles	US manages to get ownership of Greenland without outright invasion. The EU buckles under pressure from Trump.	US secures natural resources, much weaker NATO, European defence spending grows.
Diplomatic process leads to Greenland entering a COFA	Diplomacy leads to Greenland independence, enters COFA with the US.	Higher, faster European defence spending, slow decoupling of EU/US
Long protracted process	Diplomacy fails. US tariffs, EU reacts through the anti-coercion instrument.	Macro shock prompts fiscal and monetary easing.
Outright conflict	US invades Greenland, military action.	End of NATO, broader conflicts flare up as global conventions collapse.

Source: Fidelity International, January 2026

Europe accounts for nearly 50% of the foreign ownership of US securities

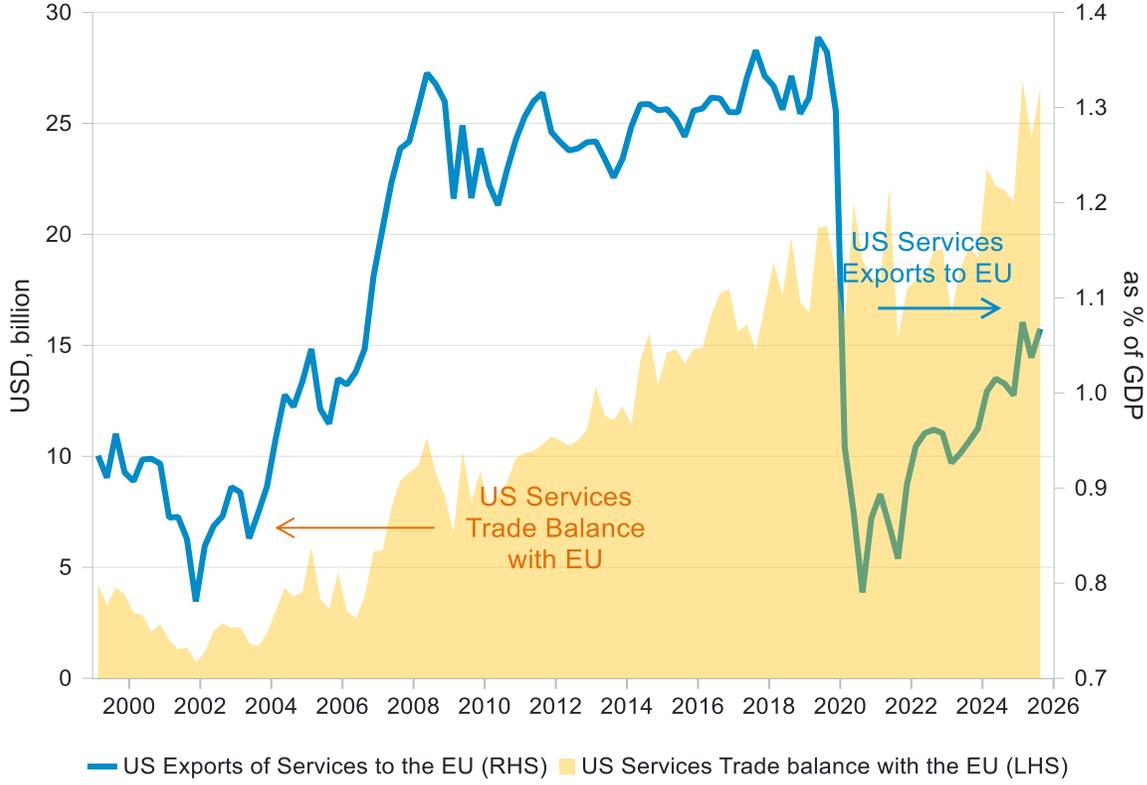
And imports services equivalent to more than 1% of US GDP

EU and ROW holdings of US securities (in USD trillions)



Note: Above holdings are as of November 2025
 Source: Fidelity International, US Treasury, TIC Holdings, January 2026

EU runs a large services trade deficit with the US, importing services >1% of US GDP

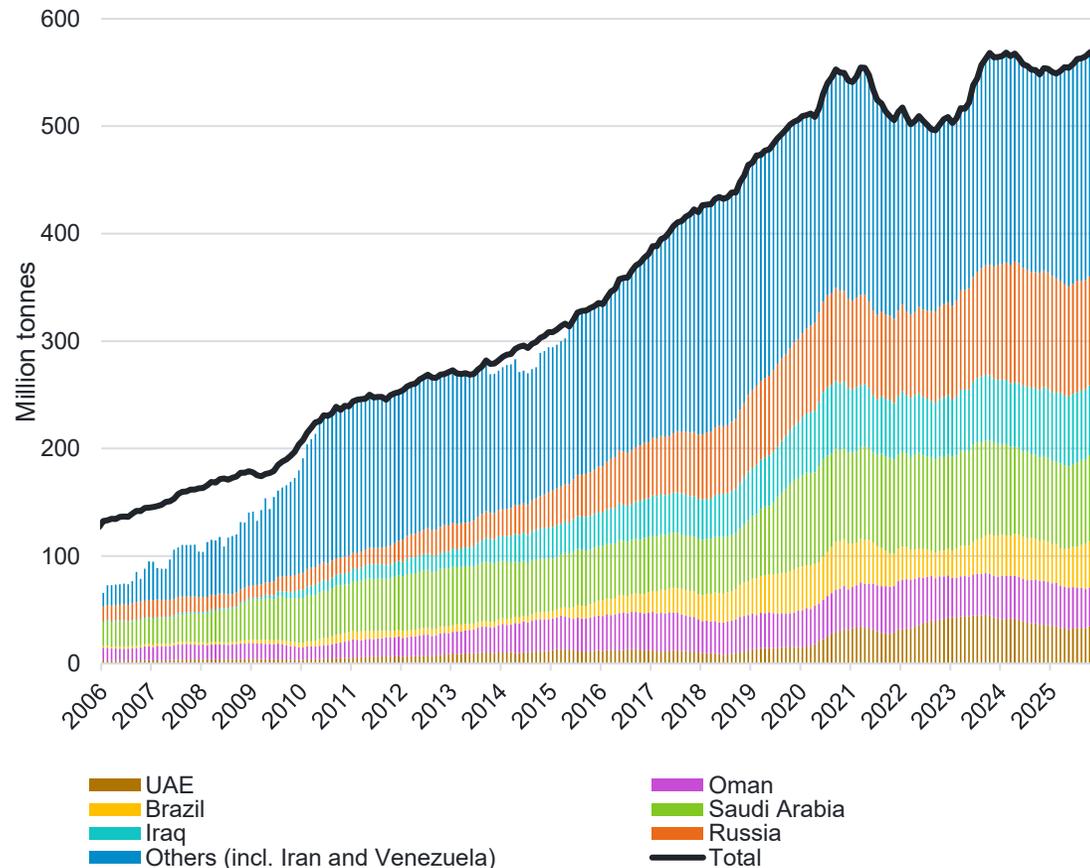


Source: Fidelity International, Macrobond, USCB, January 2026.

China impact is limited for now, but US moves expose its energy vulnerability...

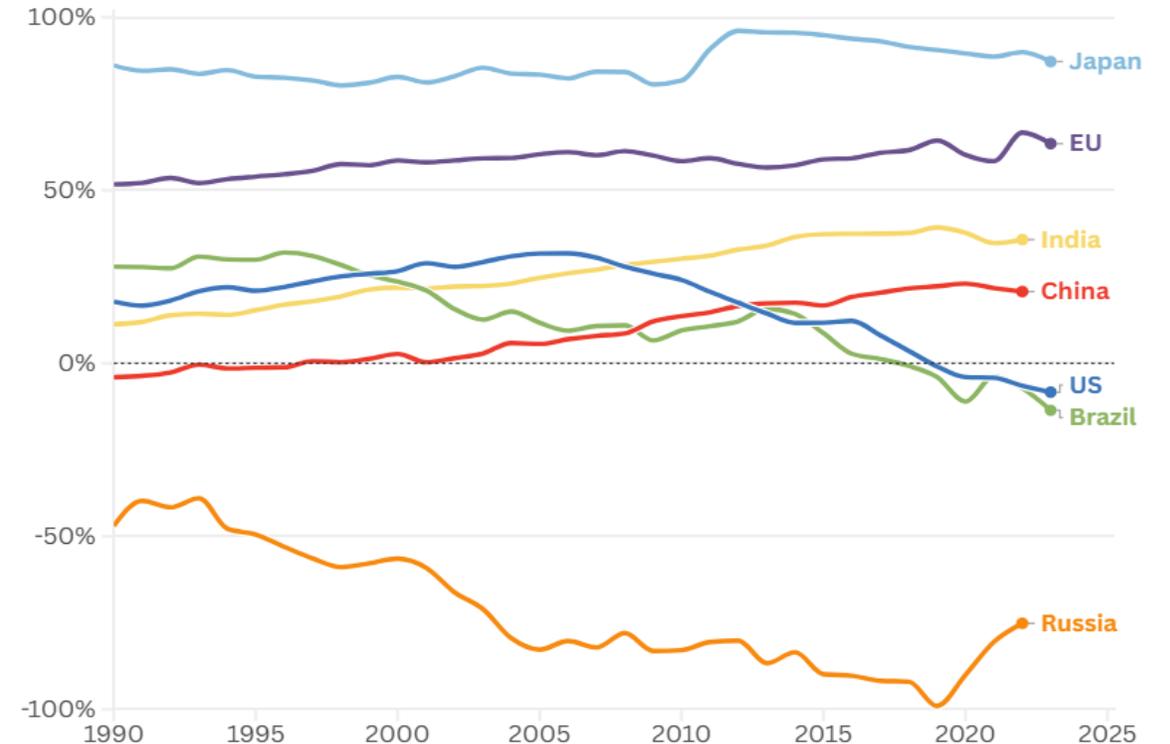
...and import dependence, with multiple import sources susceptible to US disruptions and control

China's oil imports by origin



Energy import dependence

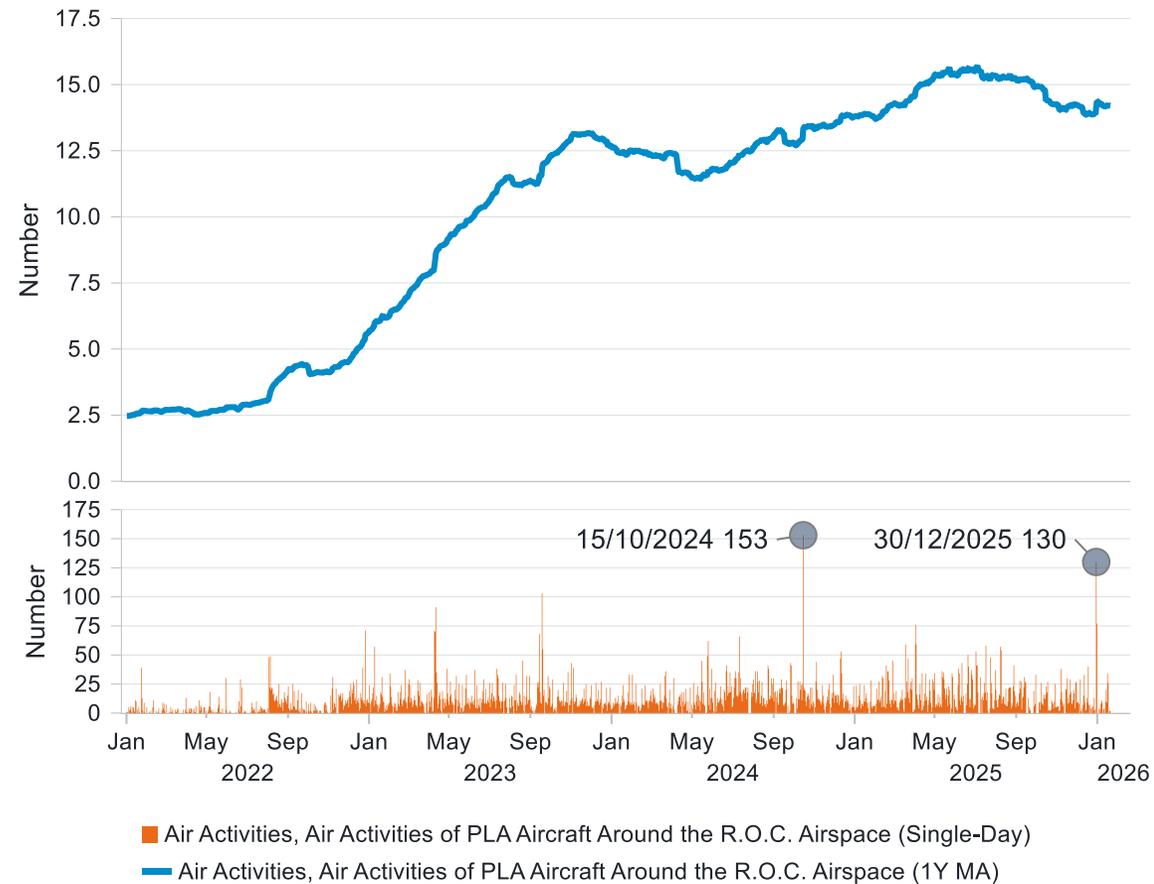
Net share of primary energy coming from imports. Negative values indicate and economy is a net energy exporter



China response has been muted with more focus towards global integration

Venezuela incident is unlikely a template for Taiwan, but China had moved tactically in the region to test waters amidst US-China trade truce

PLA air activities around Taiwan



Key events and timelines

Jan/Feb
2026

- Canada, Germany, UK visit China

Apr 2026

- Trump visits China

Nov 2026

- US mid-term election

Nov 2026

- Taiwan local elections

Nov 2026

- APEC meeting in Shenzhen

Aug 2027

- Centenary of the founding of PLA

Oct 2027

- 21st Party Congress (Xi's 4th term?)

Jan 2028

- Taiwan presidential election

May 2028

- Taiwan presidential inauguration speech

Nov 2028

- US presidential election

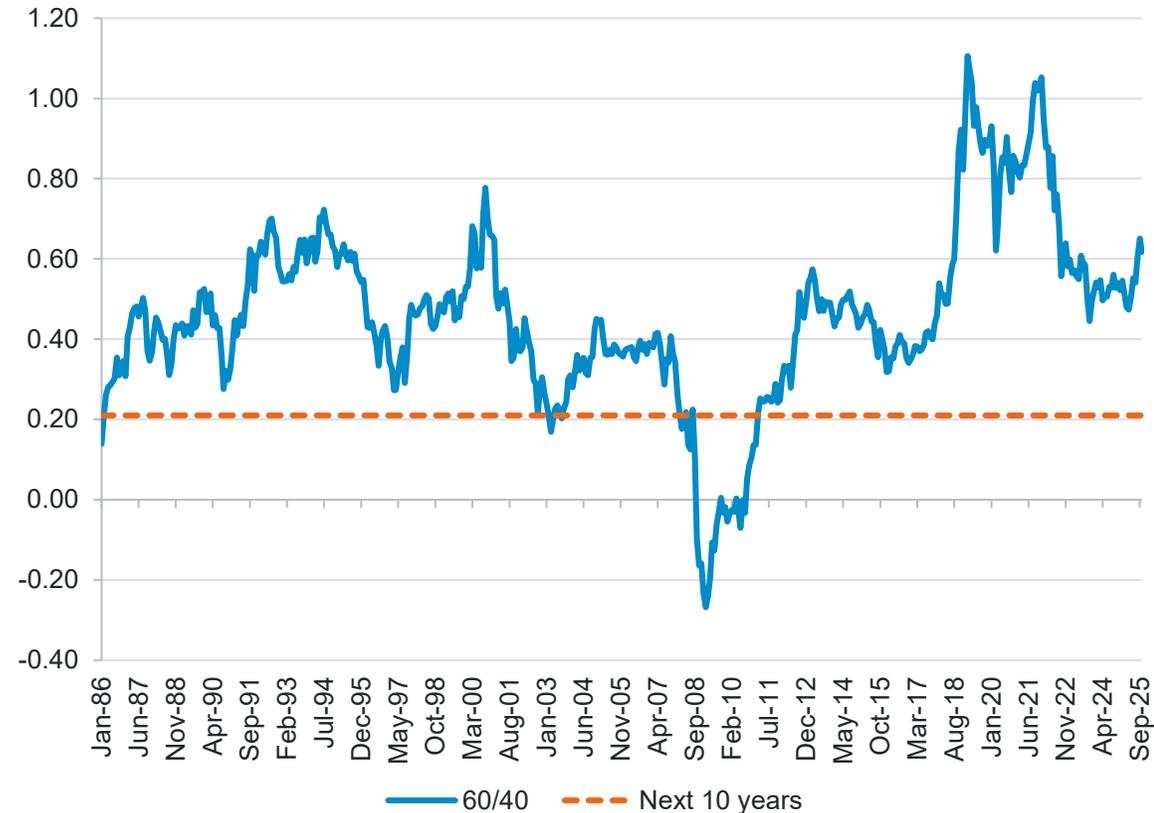
Source: Fidelity International, Macrobond, MND, January 2026.

Asset allocation in a fragmenting world

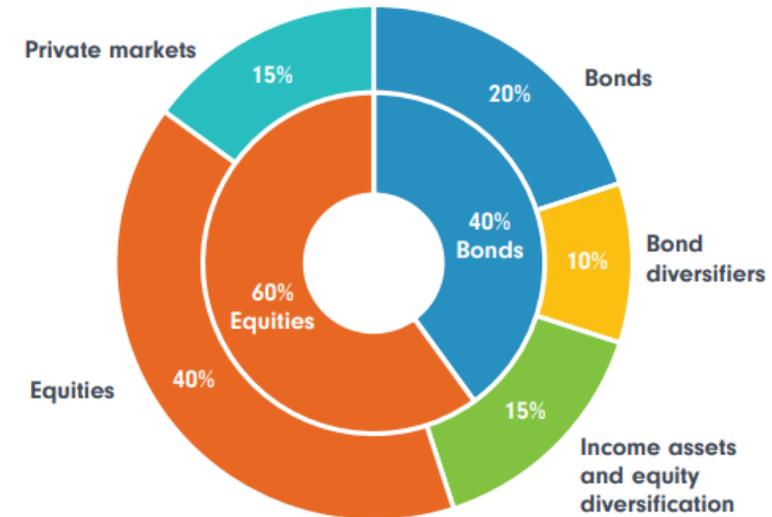
'60/40' is challenged; a diversified investment strategy can help meet investment objectives

We expect a 60/40 portfolio to deliver lower risk-adjusted returns

10 rolling Sharpe ratio of 60/40 portfolio



Portfolio diversification can help address tomorrow's challenges



	60/40	Asset allocation for a fragmenting world
Expected 10-year return	5.2%	7.4%
Volatility	10.2%	10.0%
Sharpe ratio	0.21	0.44

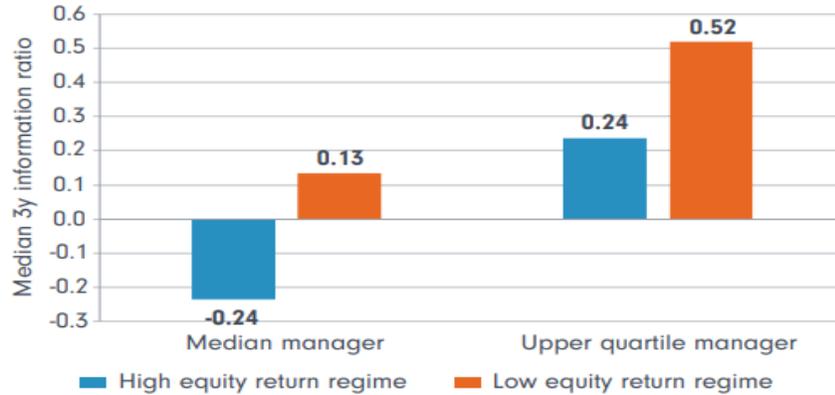
Source: Bloomberg, Fidelity International, 31 October 2025. 10-year rolling returns (using monthly total returns) for the period 1976-2025, based on a portfolio consisting of 60% MSCI World and 40% Global Aggregate bonds. US Aggregate bonds prior to 1990, Global Aggregate afterwards. For illustrative purposes only

Put active management to work

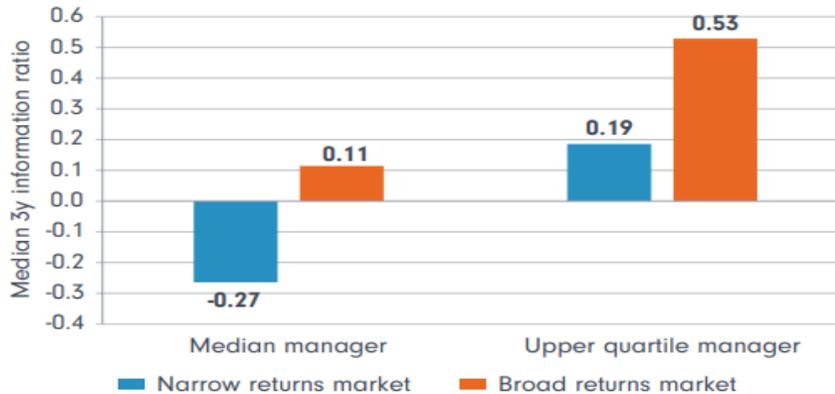
Narrow leadership and high dispersion increase the payoff to skilled active management

New regime favours active management

Low equity return regimes associate with higher information ratio

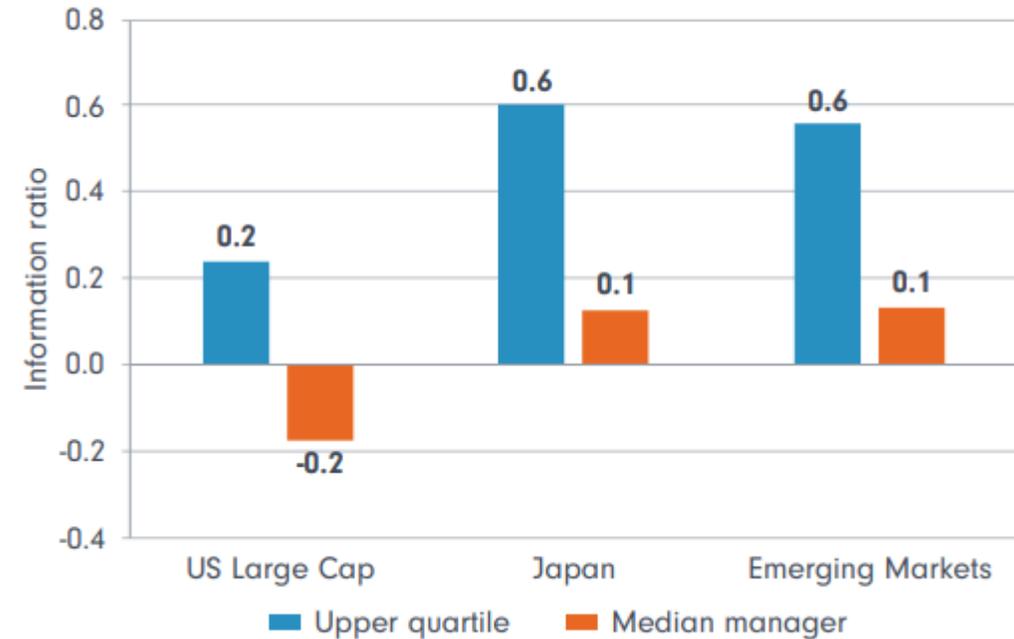


Broadening equity markets associated with higher information ratio



Risk budget should target best opportunities

Last five years average information ratio



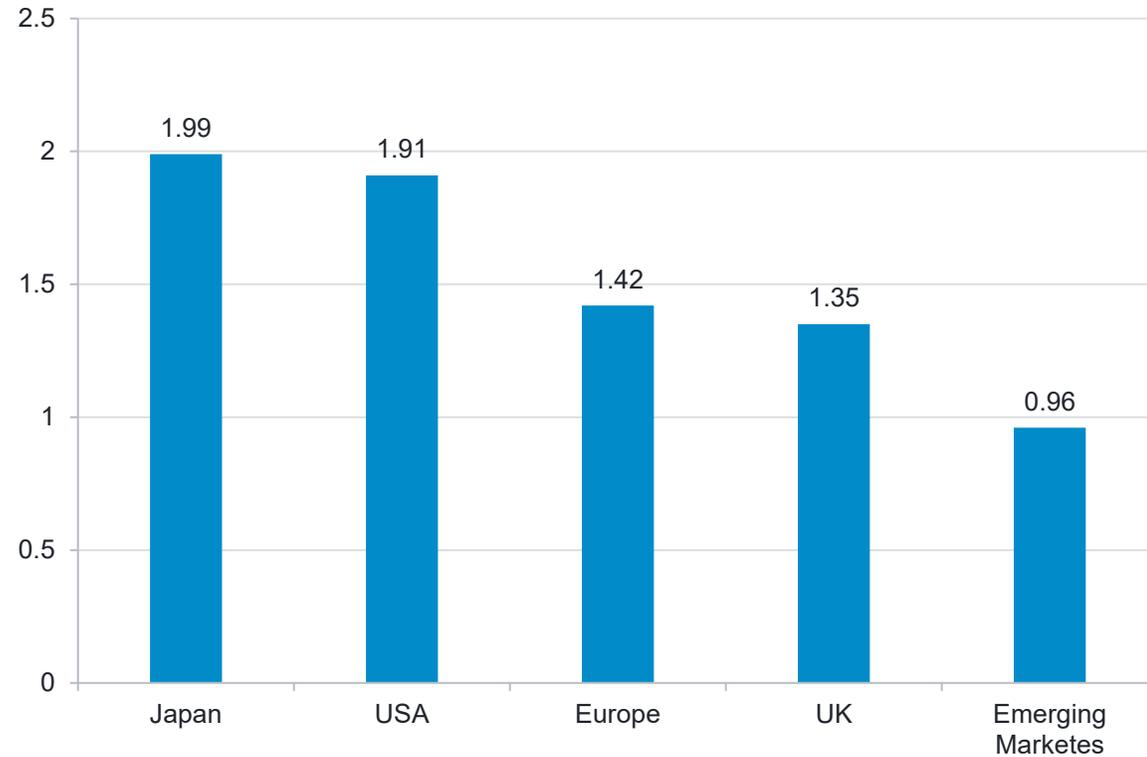
Source: Bloomberg, Morningstar, Fidelity International, 31 March 2025. Based on US equity gross of fees data for the 1990-2025 period. Using three-year rolling holding period for information ratio calculation. High/Low equity return regimes defined as three-year return being over/under full sample median level. Narrow/Broad returns market defined as three-year return on S&P 500 equal-weighted index being under/over S&P 500 cap-weighted index return over the same period.

Risk premium diversification can help build robust portfolios

Balance exposures across regions, sectors and income strategies

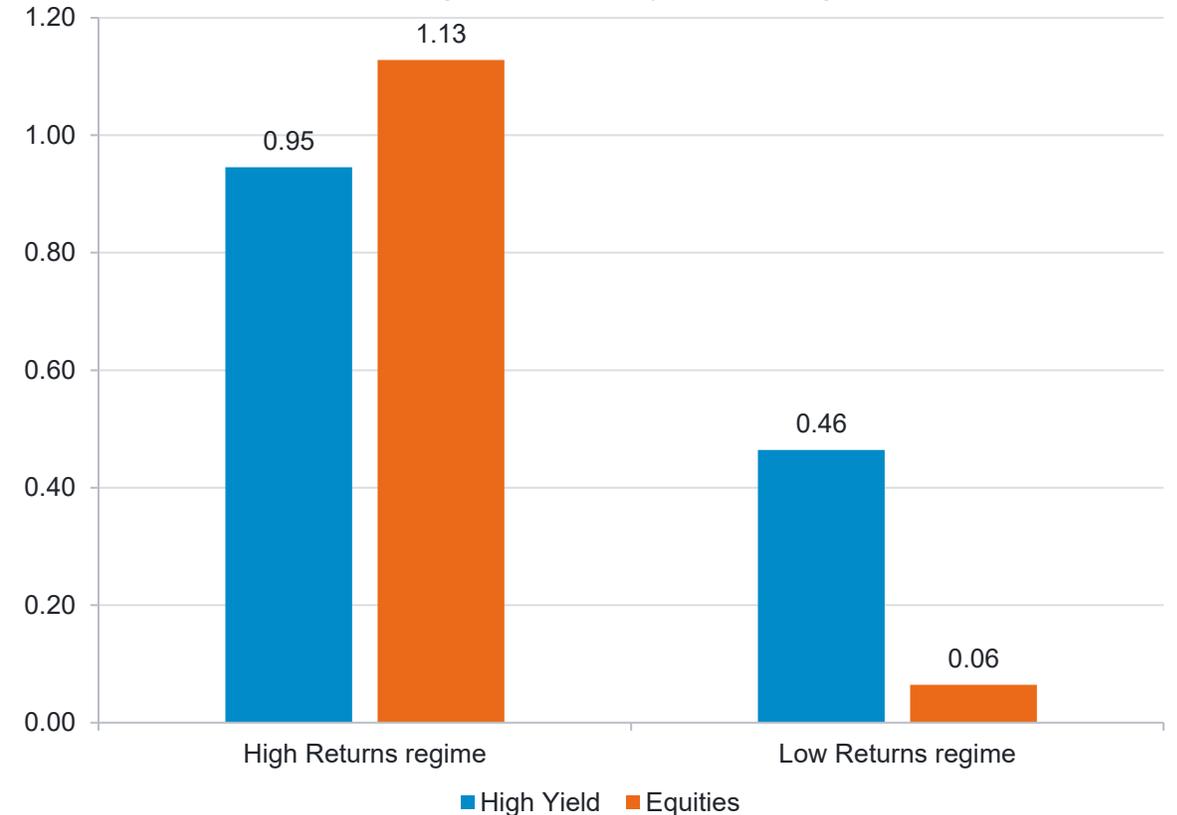
Valuations are attractive across many regions outside US

PEG ratios



Income strategies like HY bonds can deliver attractive returns

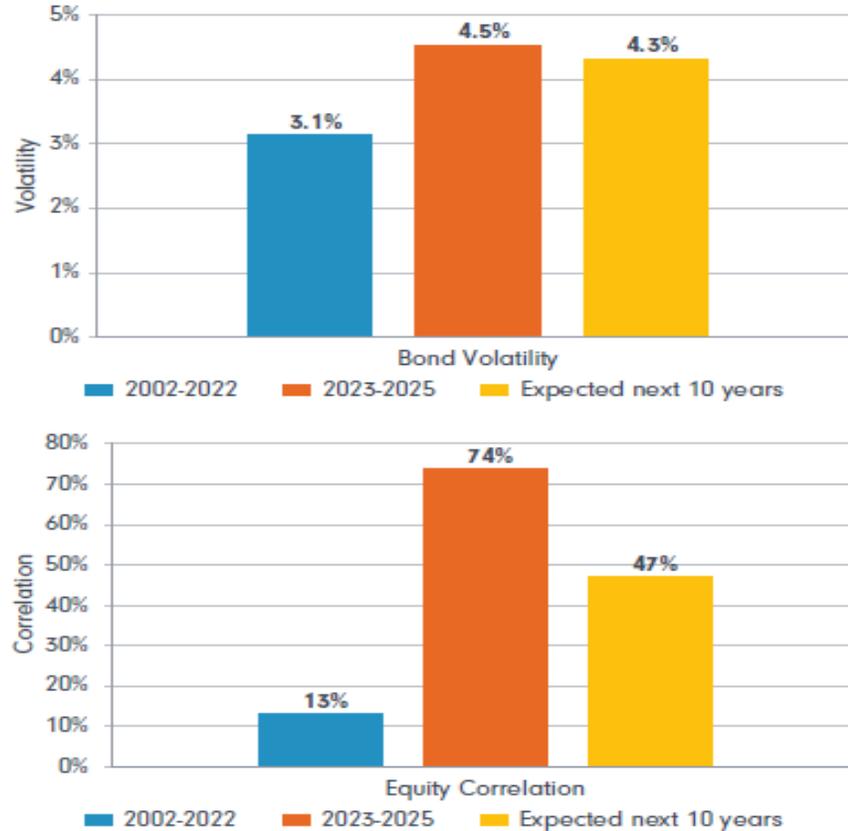
Median Sharpe ratio in High/Low equity return regimes



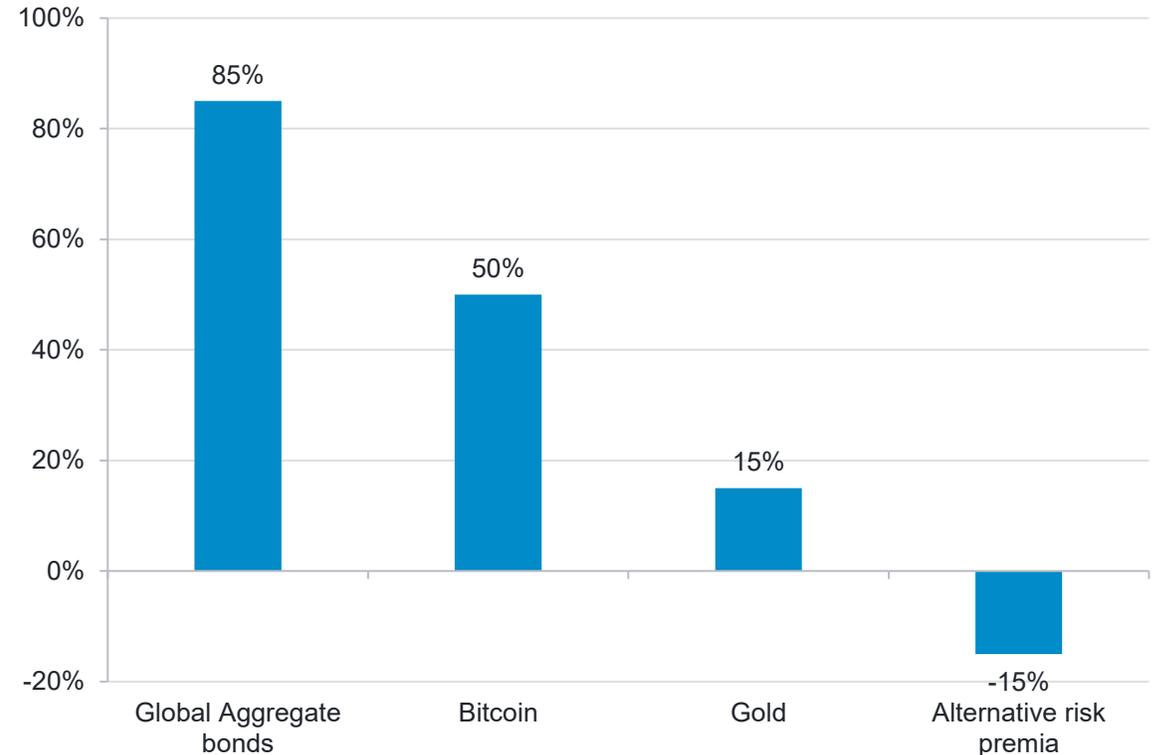
Source: Source: Bloomberg, Fidelity International, Datastream. LHS chart as of 31 October 2025, RHS chart as of 31 March 2025. Regimes using five-year rolling equity return being over/under the median five-year equity return for the full sample. Using monthly returns for the period 1987-2025 on S&P 500 and ICE BofA US High Yield index. For illustrative purposes only.

Instead of relying on a static bond allocation, layer-in a diverse set of portfolio defenses like dynamic duration, downside protection and alternative risk premia

Investors may need to expand defensive options beyond just bonds



Liquid alternatives can offer uncorrelated risk premia. Gold can protect against currency debasement and geopolitical risks
Equity correlation over the past 5 years

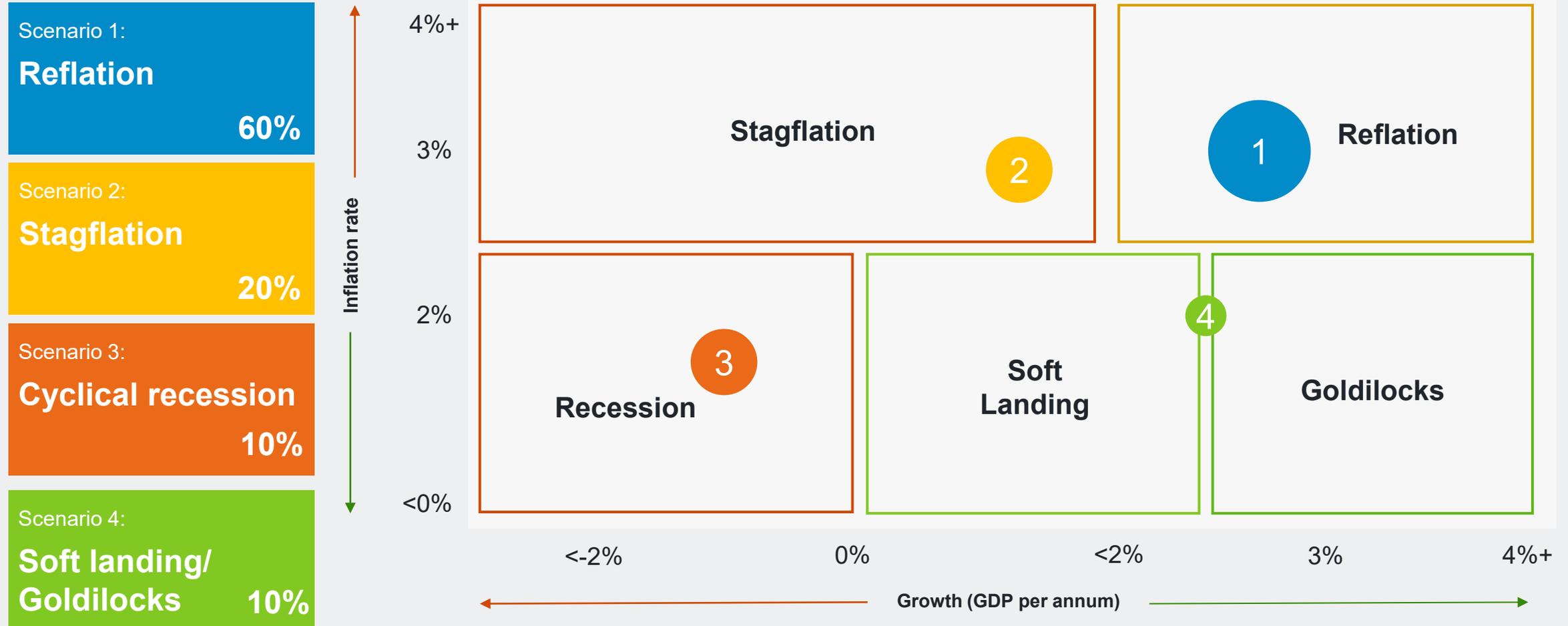


Source: Bloomberg, Fidelity International, October 2025. For illustrative purposes only. Past performance is not an indication of future results. LHS chart – Bonds: Bloomberg Global Aggregate index. Equities: MSCI World index. RHS chart – correlations based on monthly returns for the past five years versus the MSCI World index.

US Macro Outlook

US 2026 outlook

We expect the US Economy to run hot next year with strong growth and high inflation



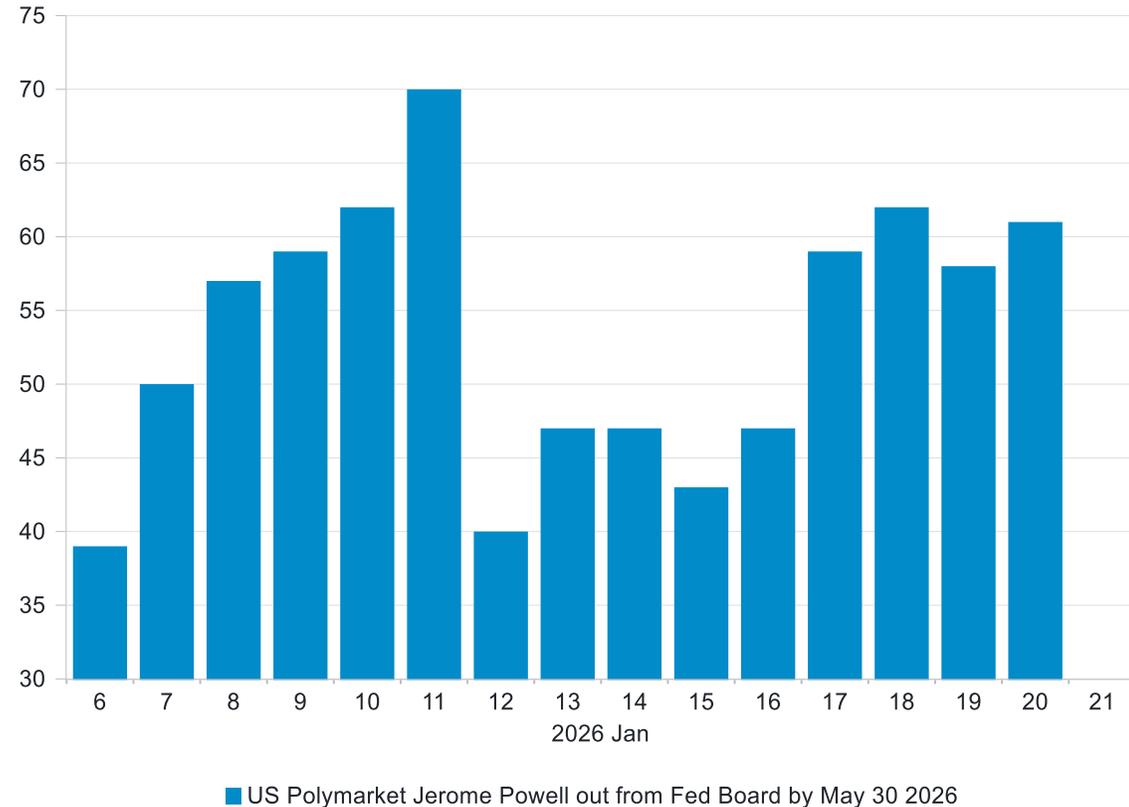
Note: Brackets reflect previous probabilities. Inflation rate measured by US Core Personal Consumption Expenditures Price Index.

Source: Fidelity International, January 2026.

Odds that Powell stays beyond his term as Fed chair have increased...

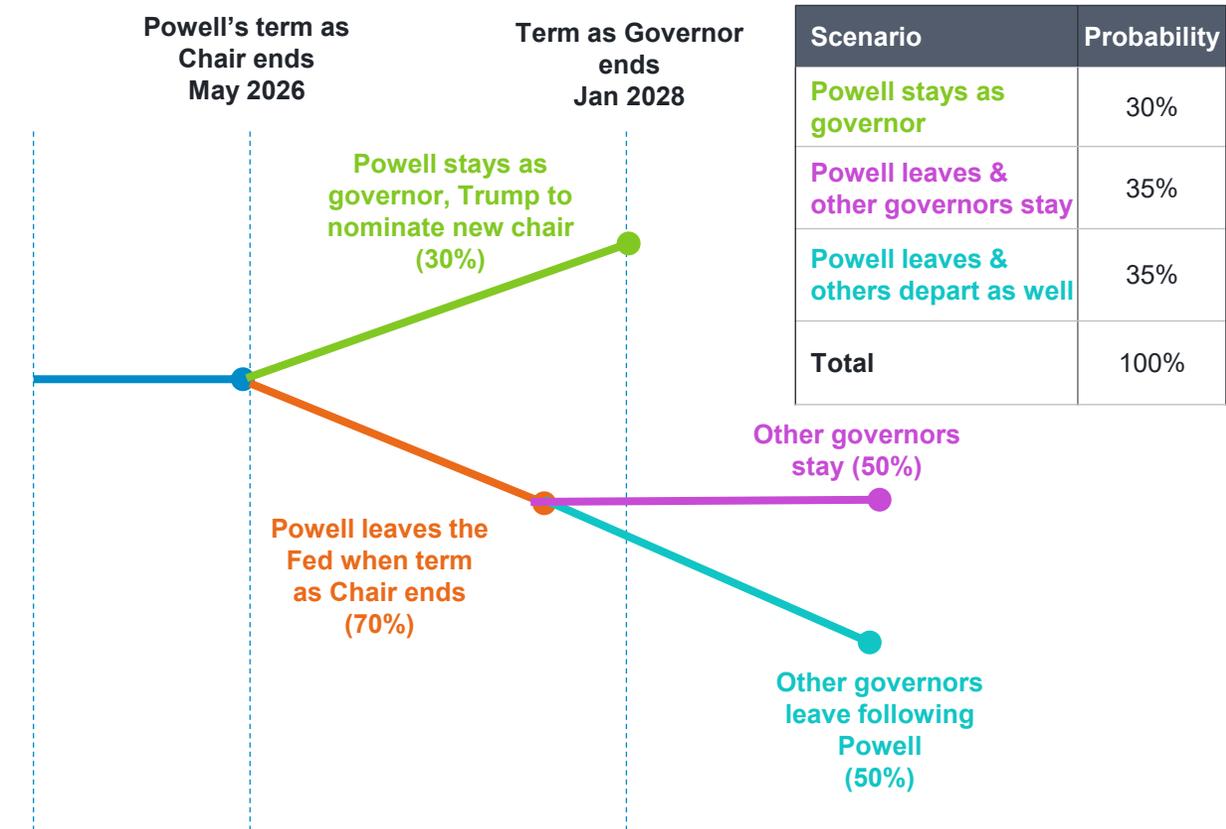
...as pressure on the Federal reserve has ramped up.

Odds Powell leaves as governor by May 2026



Source: Fidelity International, Bloomberg, Macrobond, January 2026.

Board of Governors decision tree

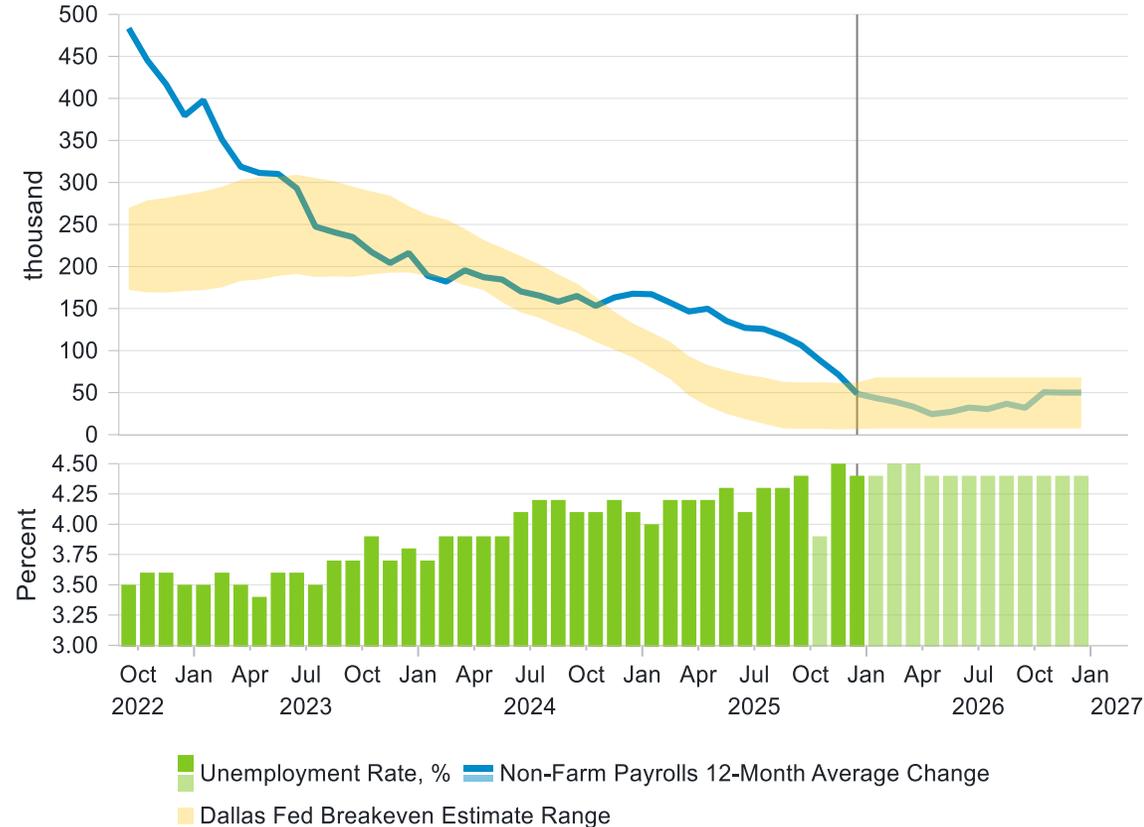


Source: Fidelity International, August 2025.

Labour market appears to be bottoming; a steady 50K job growth is sufficient...

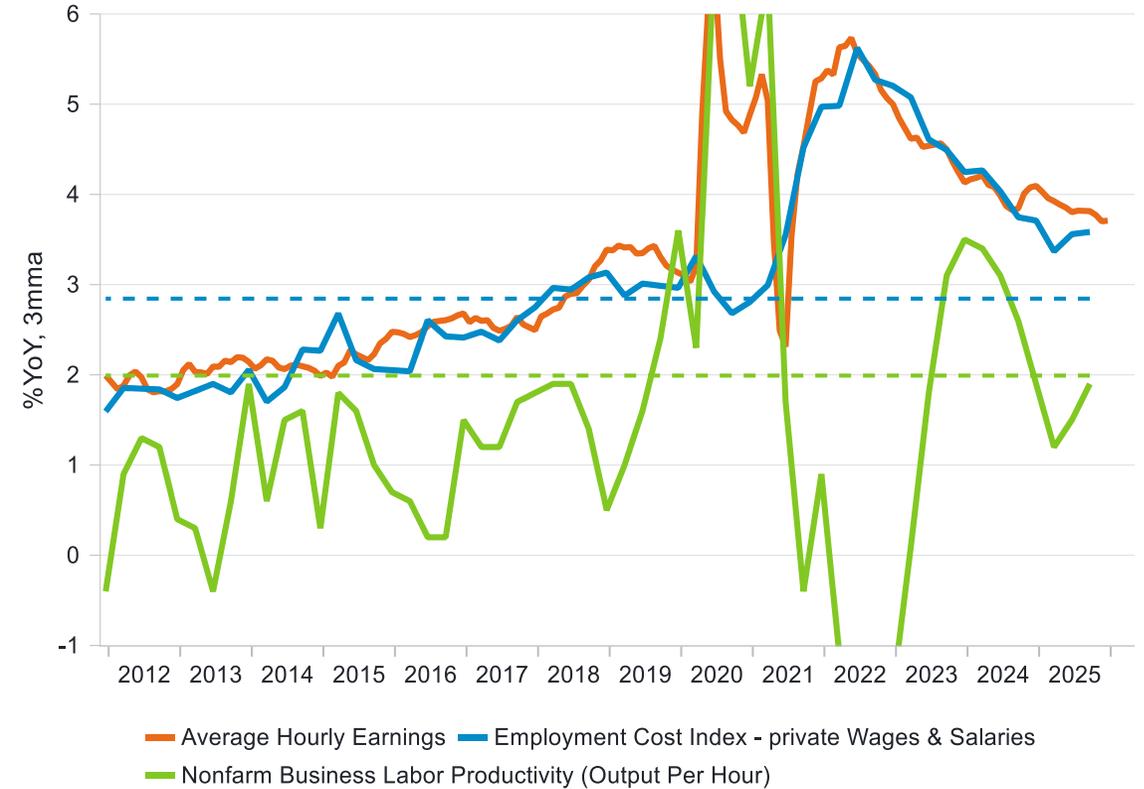
...to keep UR contained. Wages remain steady above trend, leaving productivity to keep inflation contained

Payrolls, breakeven and Unemployment rate



Note: we assume payrolls growth of 50K per month on average in 2026, and UR at 4.4% for 2026. We extrapolate Dallas Fed BE estimates into 2026 using CBO population growth estimates.
Source: Fidelity International, Macrobond, Dallas Fed, BLS, CBO, January 2026.

Nominal wages and productivity key for inflation

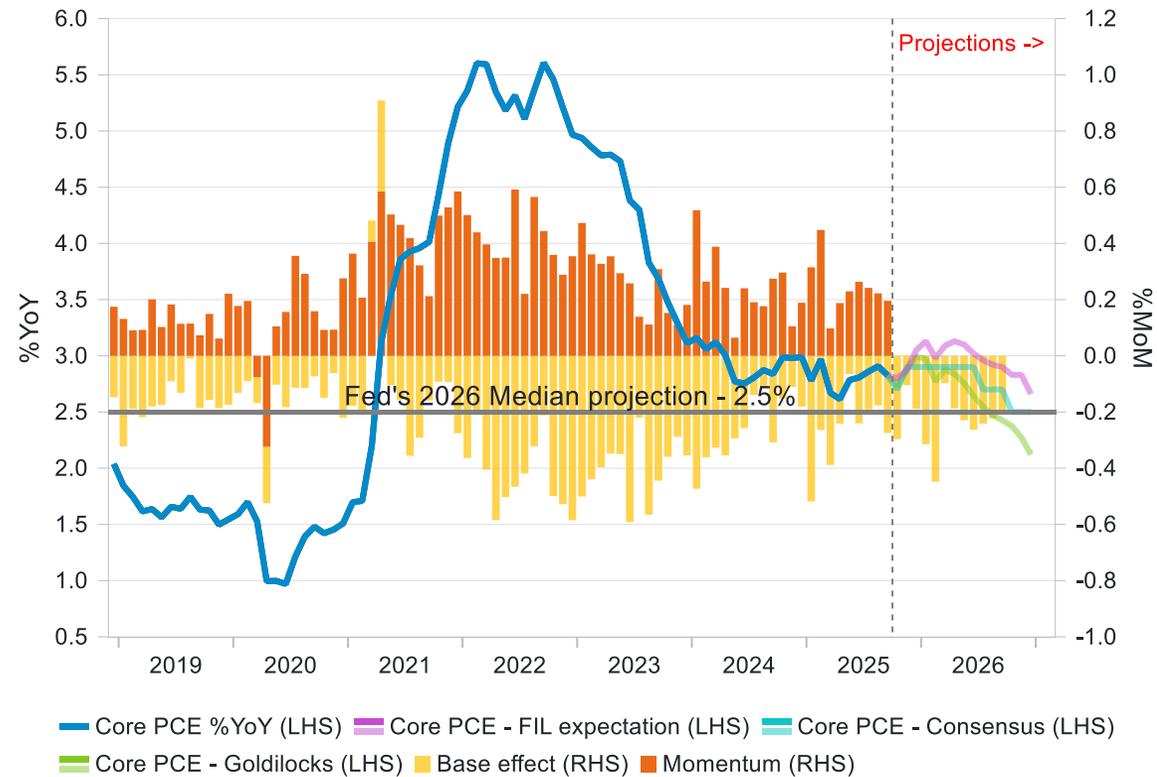


Note: Dotted lines are averages from 2000-2025
Source: Fidelity International, Macrobond, BLS, Atlanta Fed, January 2026.

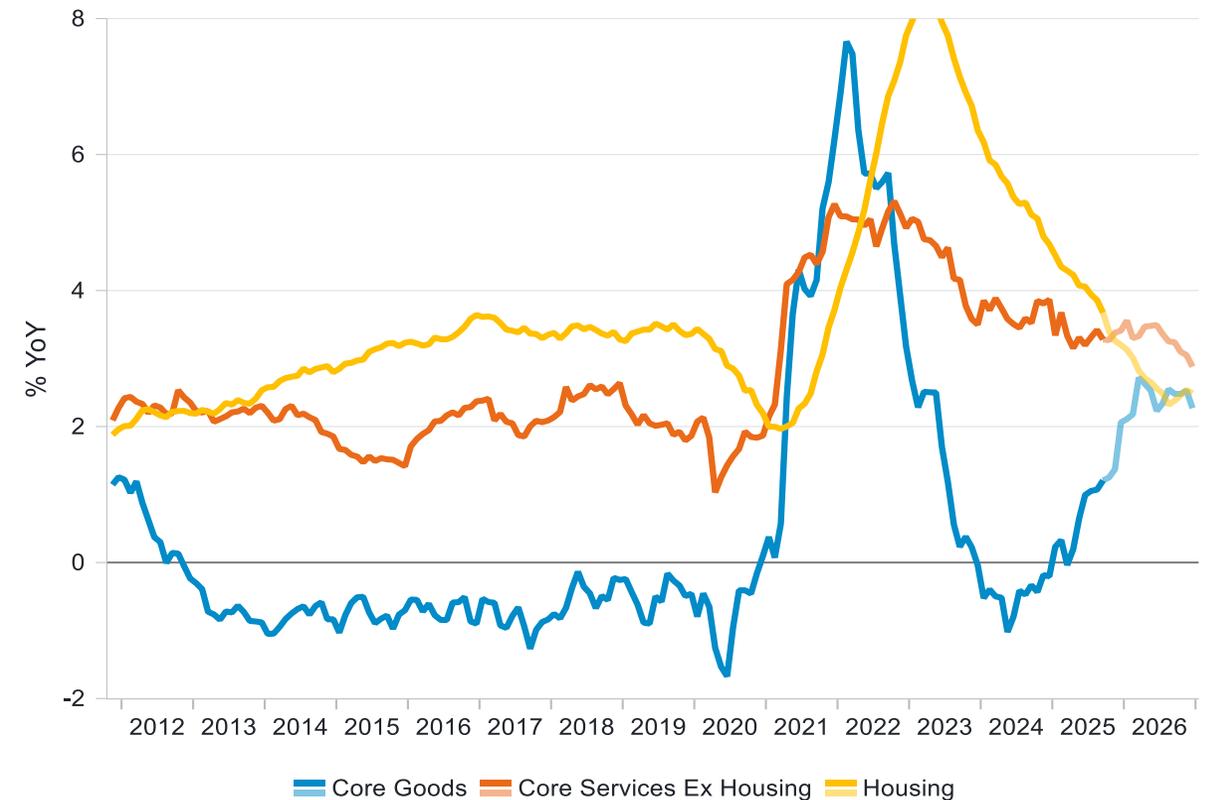
US inflation is likely to remain sticky and above Fed's median expectation in 2026

Tariff shocks and slow progress on core services offset disinflationary forces from housing inflation

Core PCE inflation



US Core PCE – components split

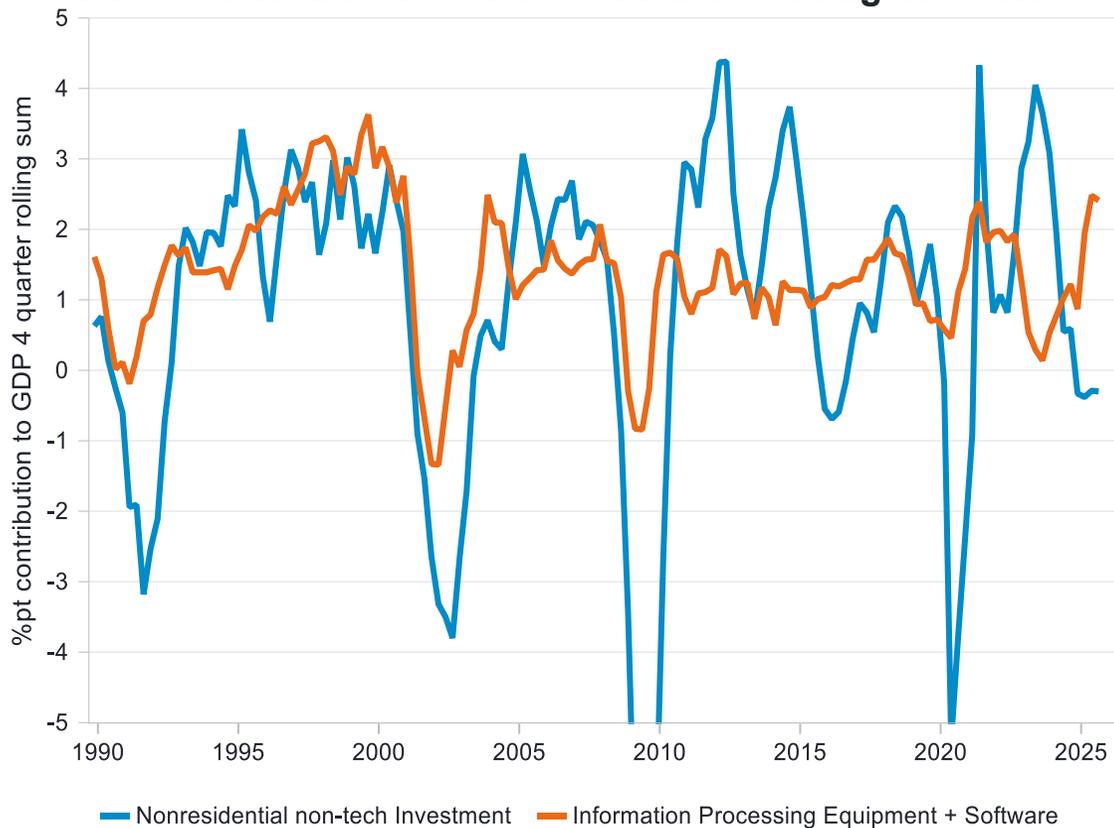


Note: Goldilocks assumes momentum of 0.25% in Q4 25 and Q1 26, and then 0.15% for subsequent quarters
 Source: Fidelity International, Macrobond, BEA, January 2026

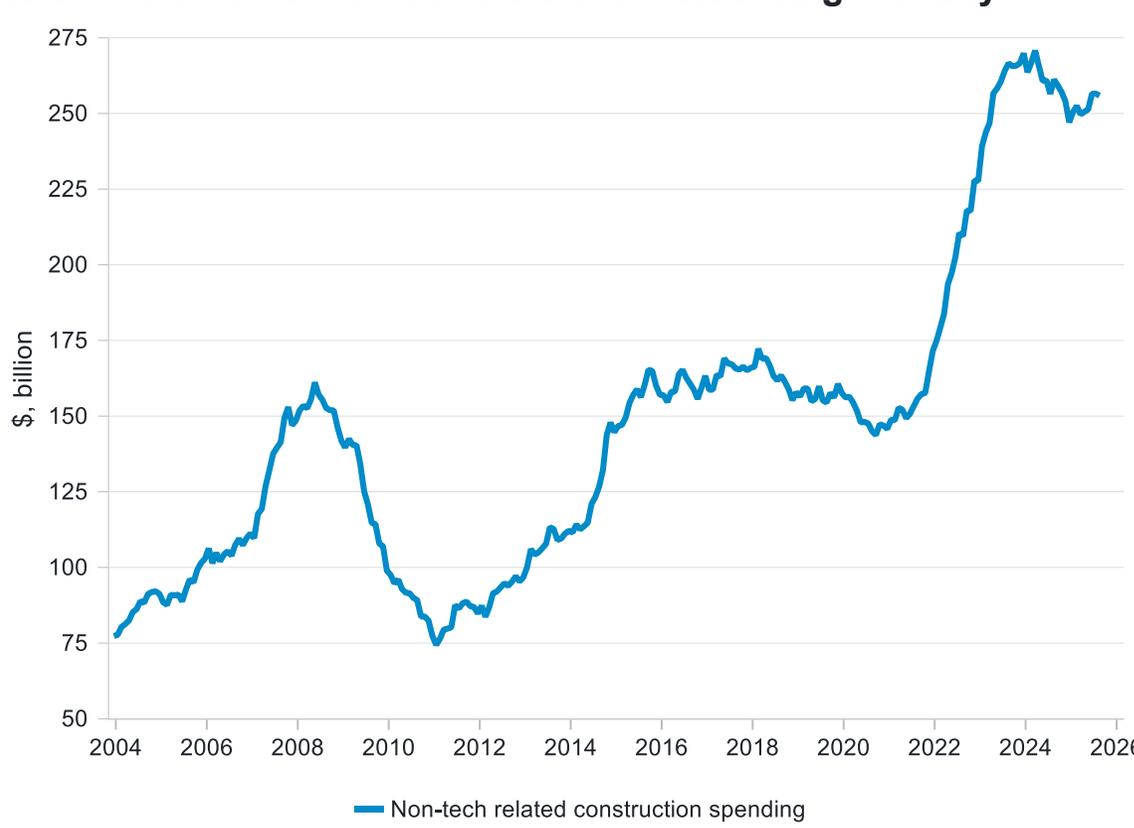
Source: Fidelity International, Macrobond, BEA, January 2026.

There is scope for a cyclical recovery in non-tech investment growth due to Fed cuts and policy support* which is likely to further extend the productivity expansion

US non-residential non-tech investment is turning the corner



Non-tech related construction has been moving sideways



*full expensing of structures, Research & development etc. because of the One Big Beautiful Bill act

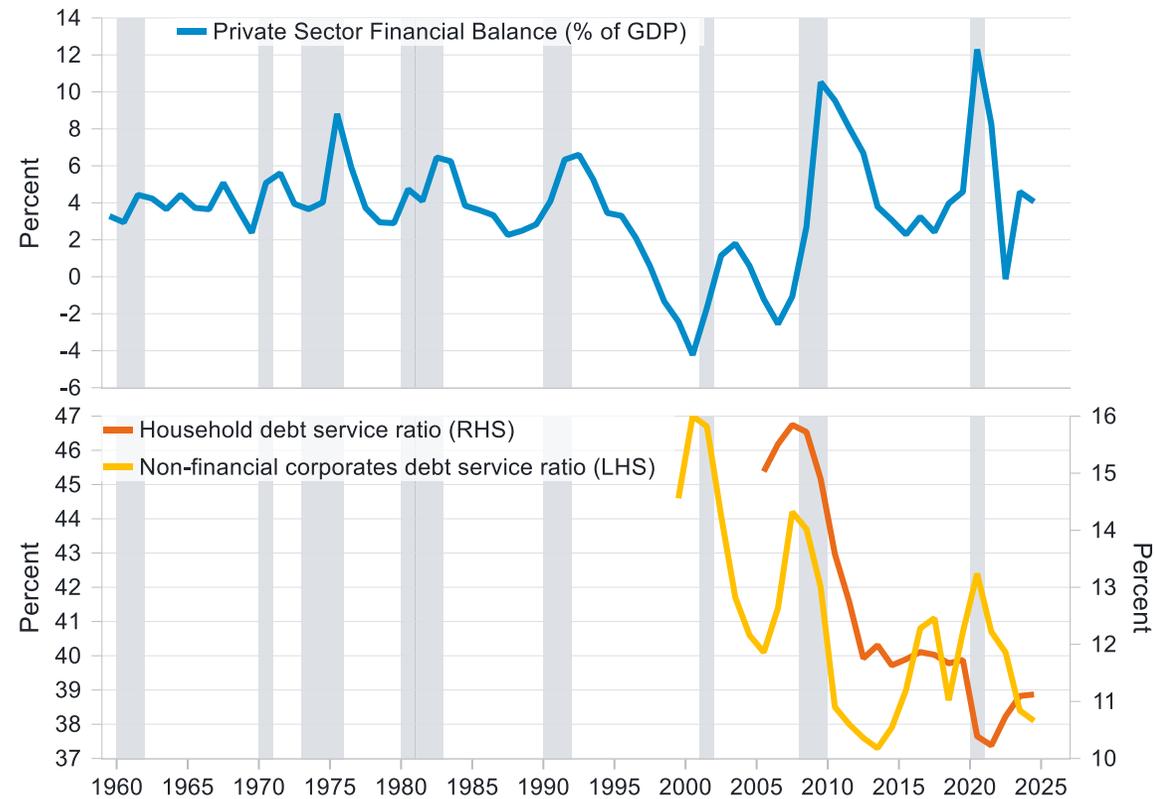
Source: Fidelity International, Macrobond, BEA, January 2026.

Notes: non-tech related construction spending includes Commercial, Health care, Educational, Transportation & Communication, Religious, Recreation and Manufacturing excluding Computer and electrical
Source: Fidelity International, Macrobond, USCB, January 2026.

Private sector resilience is a clear cyclical buffer

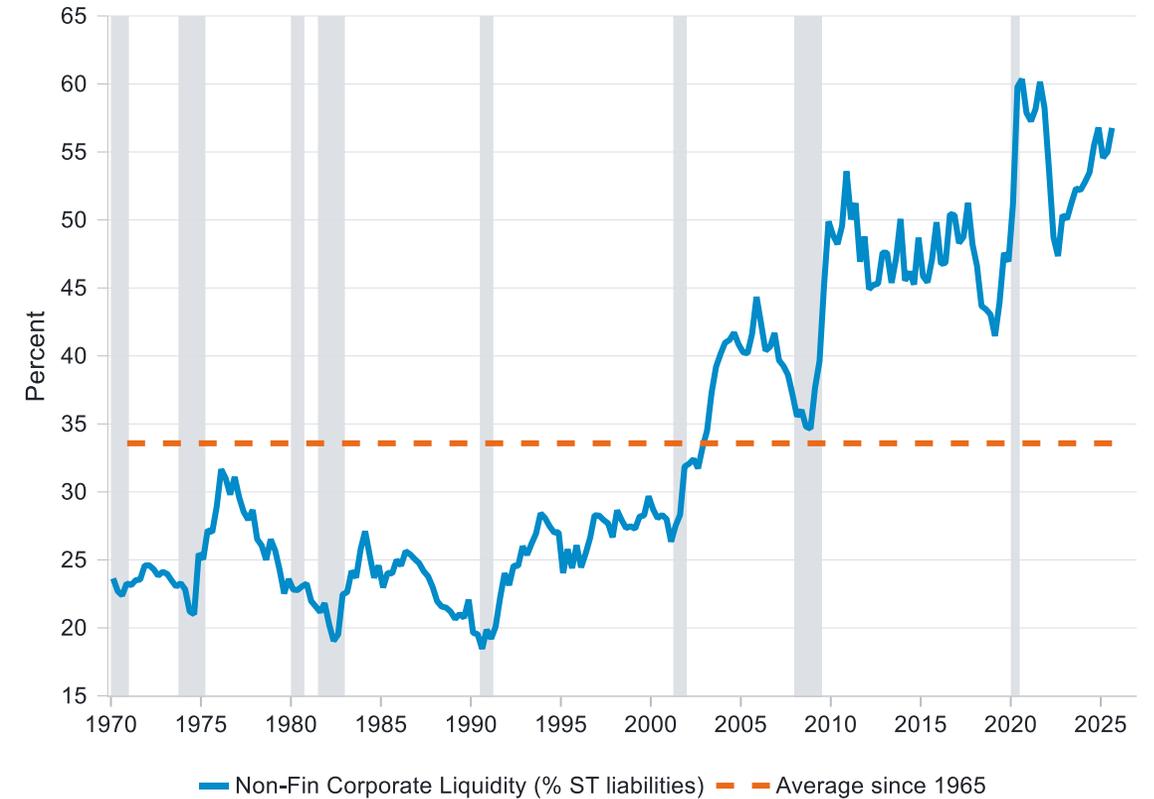
Corporates are able to fund their capex plans with cash which keep risks low

Private sector financial balance and debt service ratios



Note: Grey shades areas indicate NBER defined recessions in the US
 Source: Fidelity International, Macrobond, Fed, BIS, January 2026.

Ex-Covid corporates never had this much cash

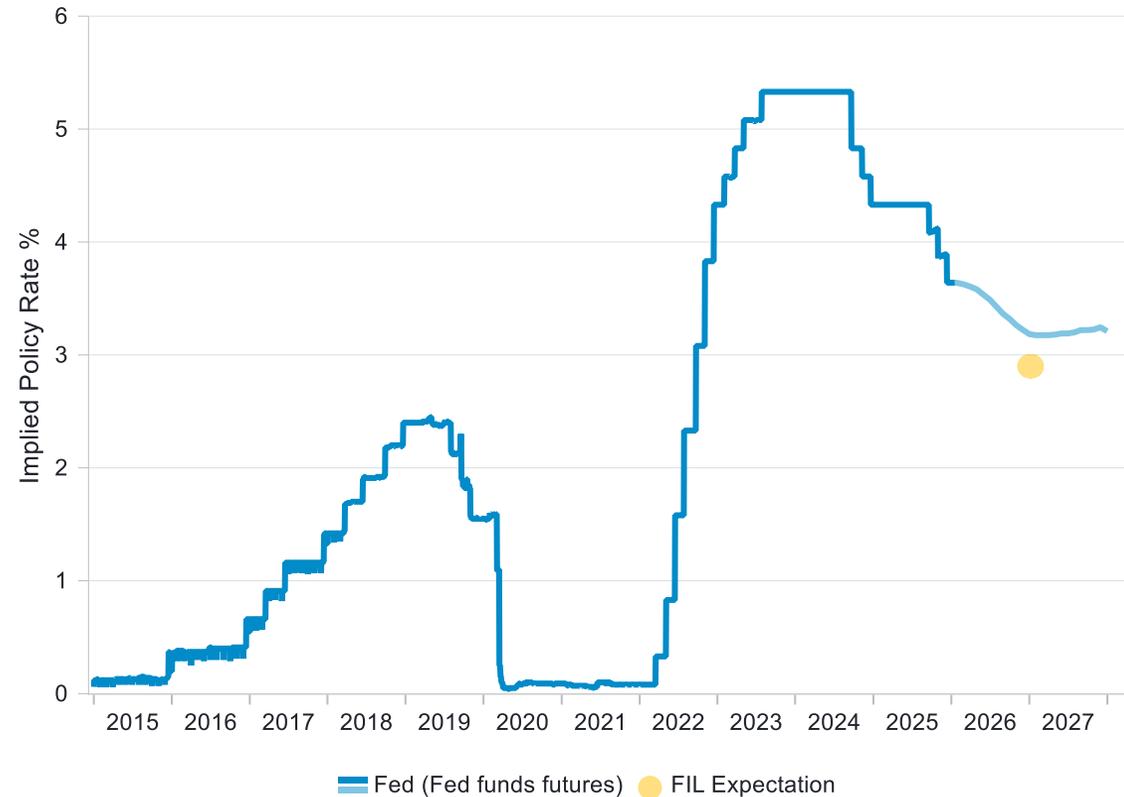


Source: Fidelity International, Macrobond, Fed, January 2026.

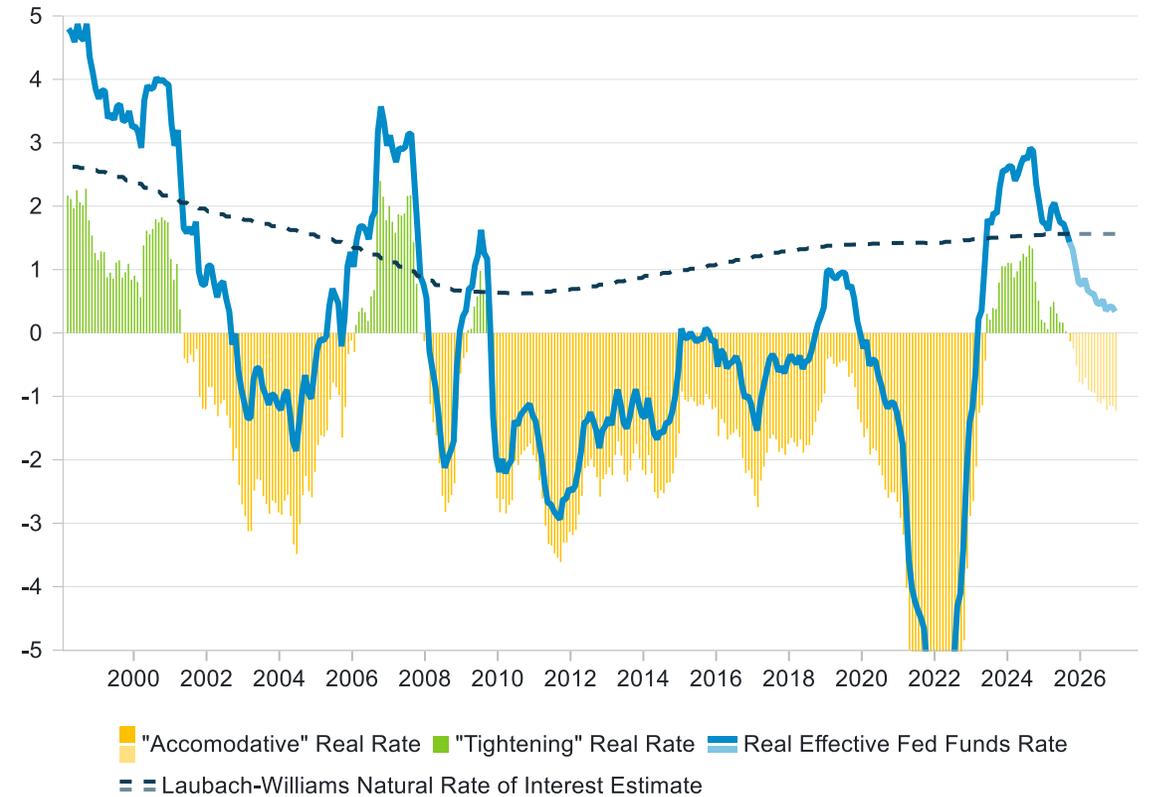
Fed likely to remain on hold until the new Fed leadership steps in May 2026

We expect further easing with at least three more cuts this year post-May

Fed Market Pricing



Real Effective Fed Funds rate vs R*



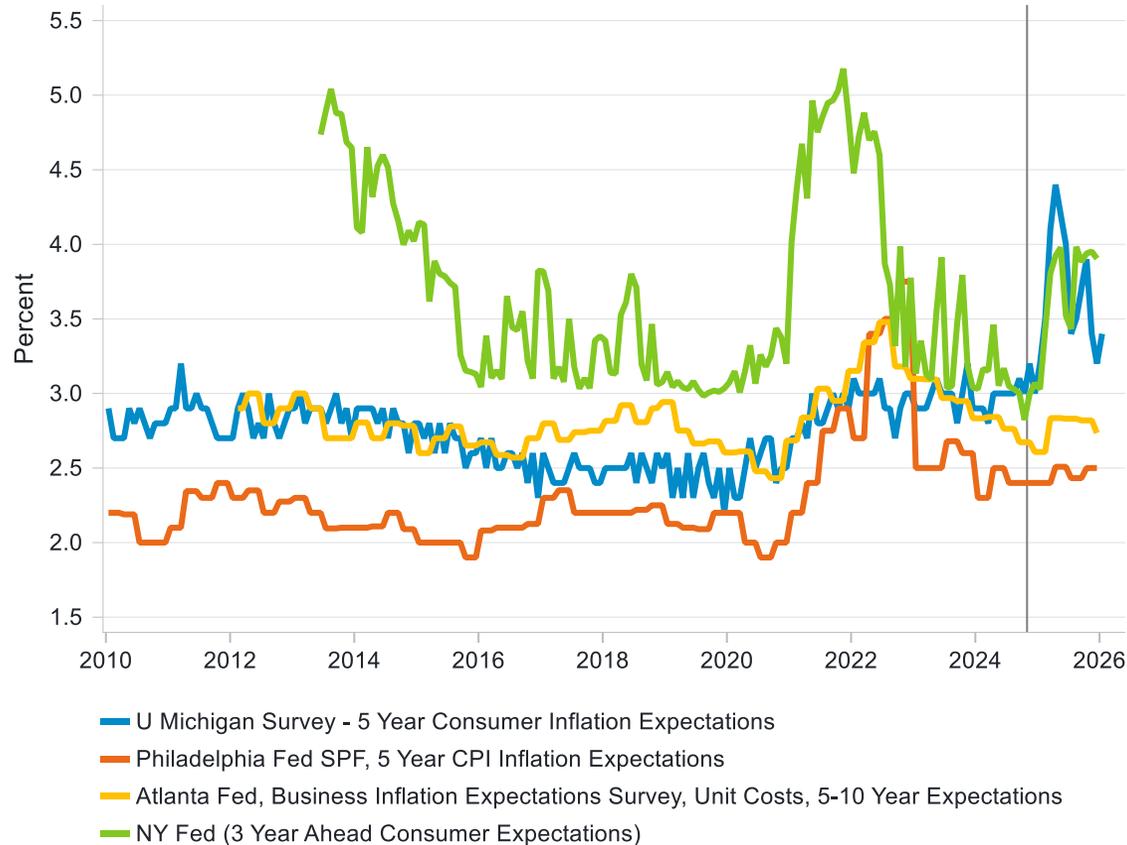
Source: Fidelity International, Macrobond, CME, Federal Reserve, January 2026.

Note: Forecasts for Real EFFR are based on FIL Forecasts
Source: Fidelity International, Macrobond, Fed, BEA, New York Fed, January 2026.

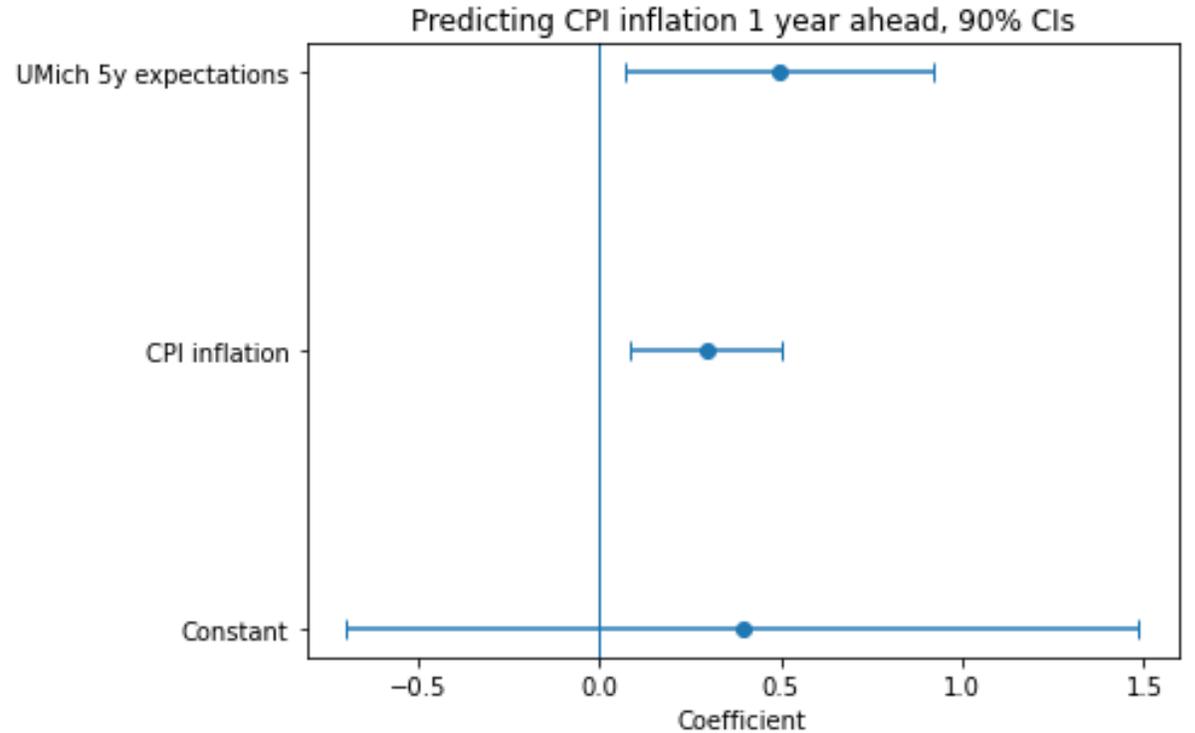
Professional/market inflation expectations static but firms and households rise

Household and firm expectations important from a price and wage setting perspective and tend to lead inflation

HH and firm expectations increased post Trump election



Higher household expectations lead higher future CPI



Source: Fidelity International, Macrobond, Bloomberg, University of Michigan, Philadelphia Fed, Atlanta Fed, Fed, New York Fed, January 2026.

Source: Fidelity International, Macrobond, January 2026.

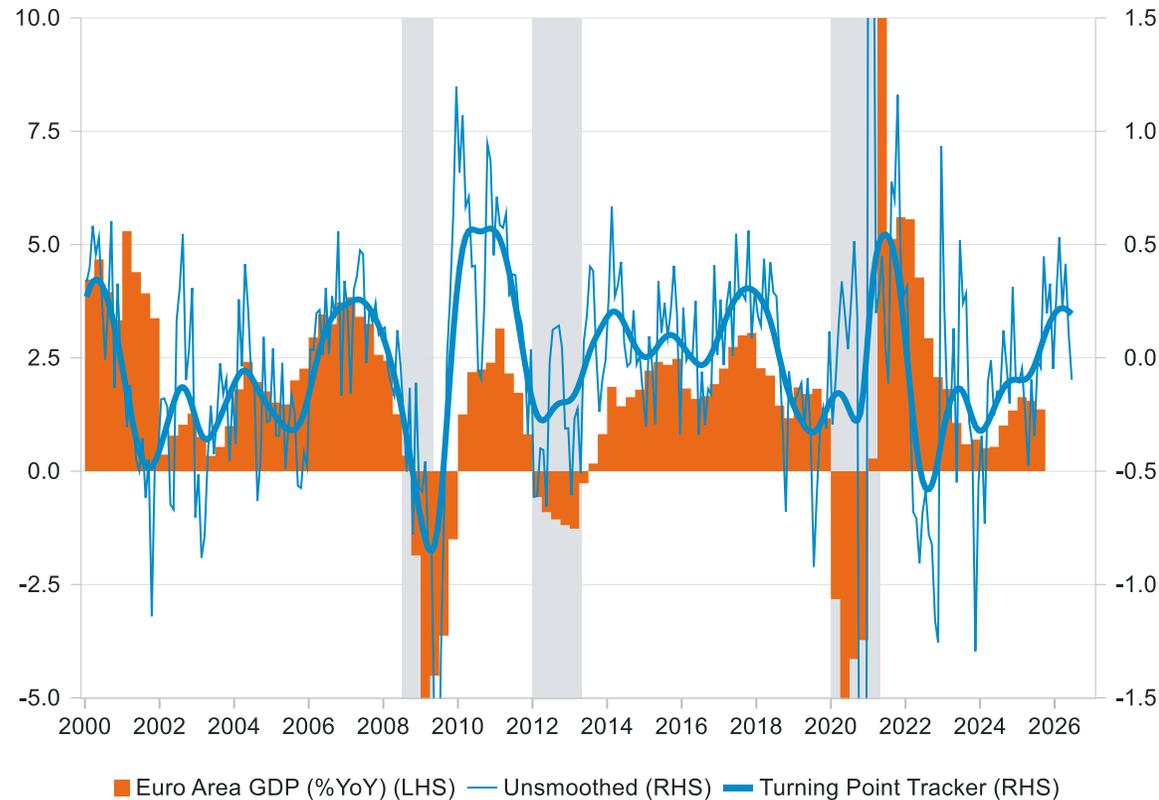
Notes: Results of a simple regression of one year ahead US CPI inflation on contemporaneous CPI and household inflation expectations, standard errors are heteroskedasticity robust.

Europe Macro Outlook

European growth has been resilient, with opportunities growing as we enter 2026

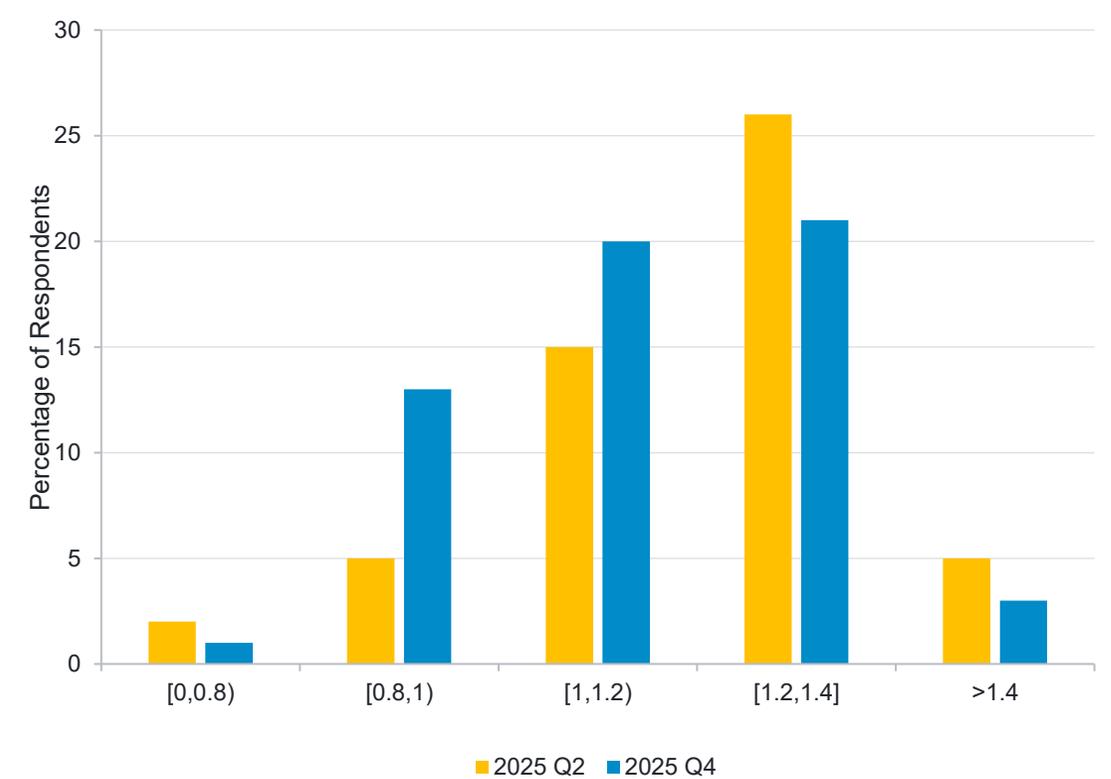
2026 growth around trend with DE fiscal a tailwind. ES to continue strength, trade tensions linger

Turning point tracker continues to signal resilience



Source: Fidelity International, Macrobond, DG ECFIN, Eurostat, S&P Global, January 2026.

Consensus growth expectations for 2026 robust around trend

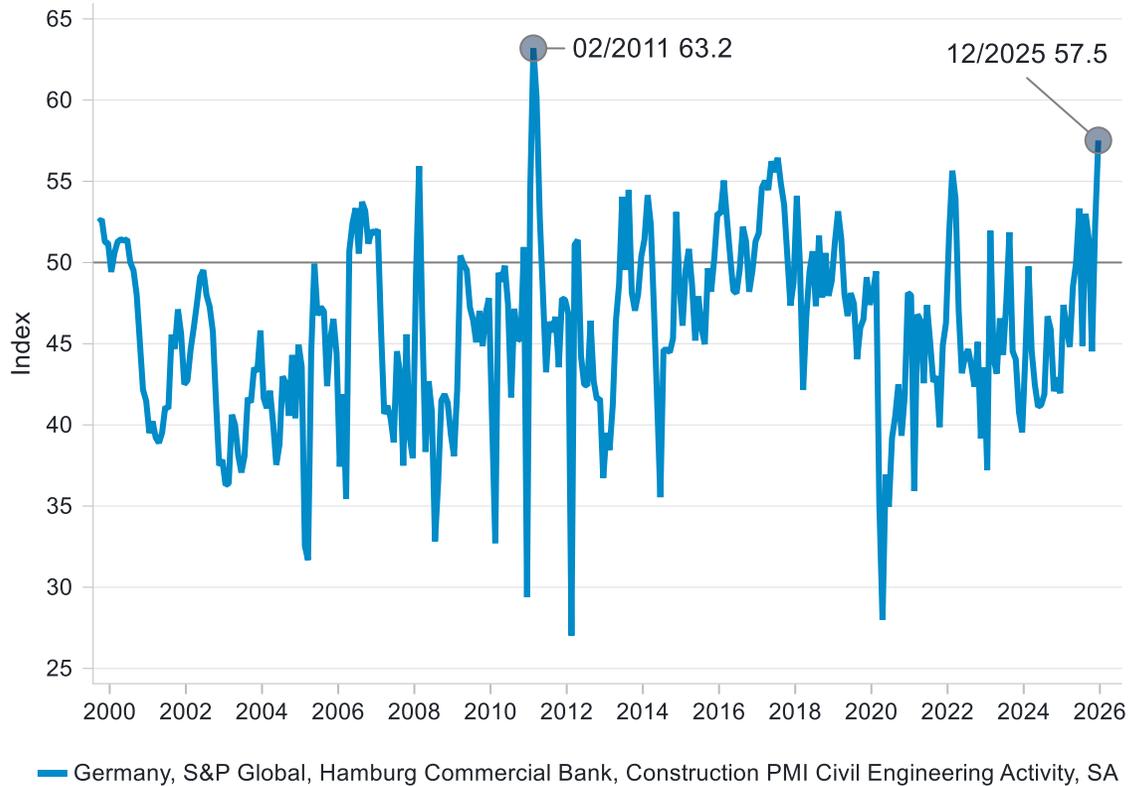


Source: Fidelity International, ECB, January 2026

First signs of German fiscal rollout emerging

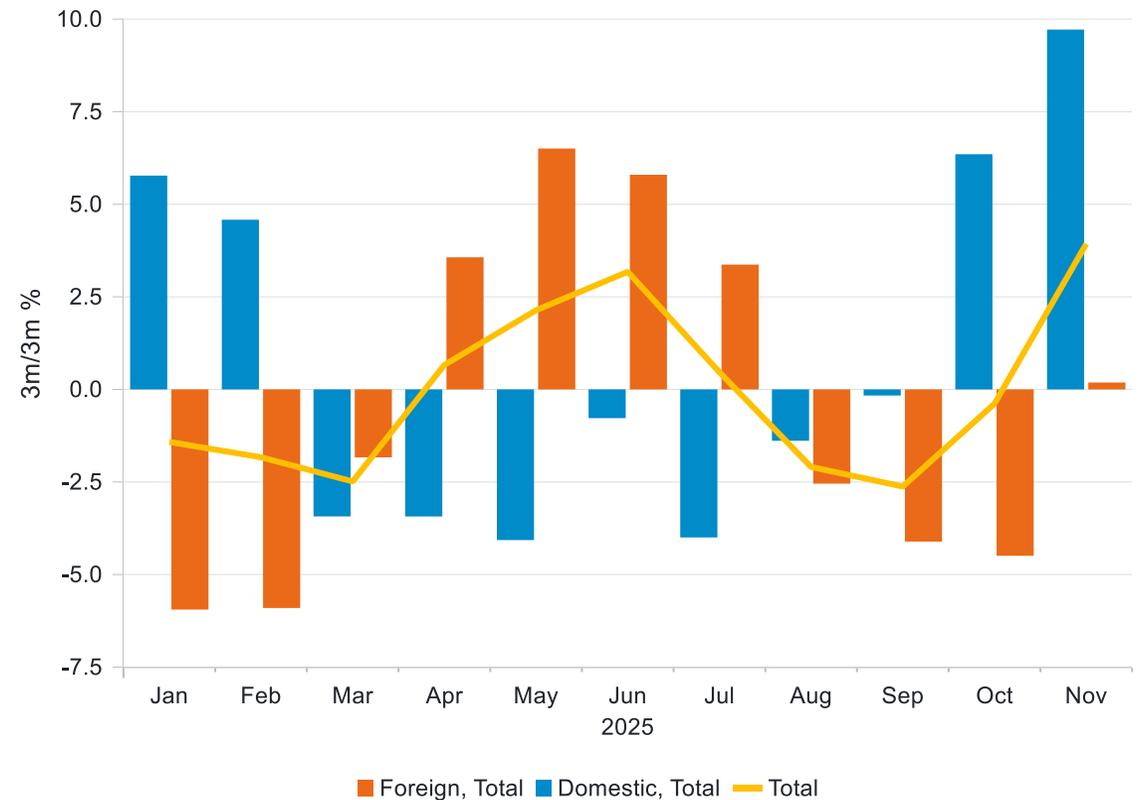
Civil engineering bump signals signs of “boots on the ground”, mfg orders sign of higher domestic demand

German civil engineering PMI hits highest level since 2011



Source: Fidelity International, Macrobond, S&P Global, January 2026.

Manufacturing orders growing, driven by robust domestic books

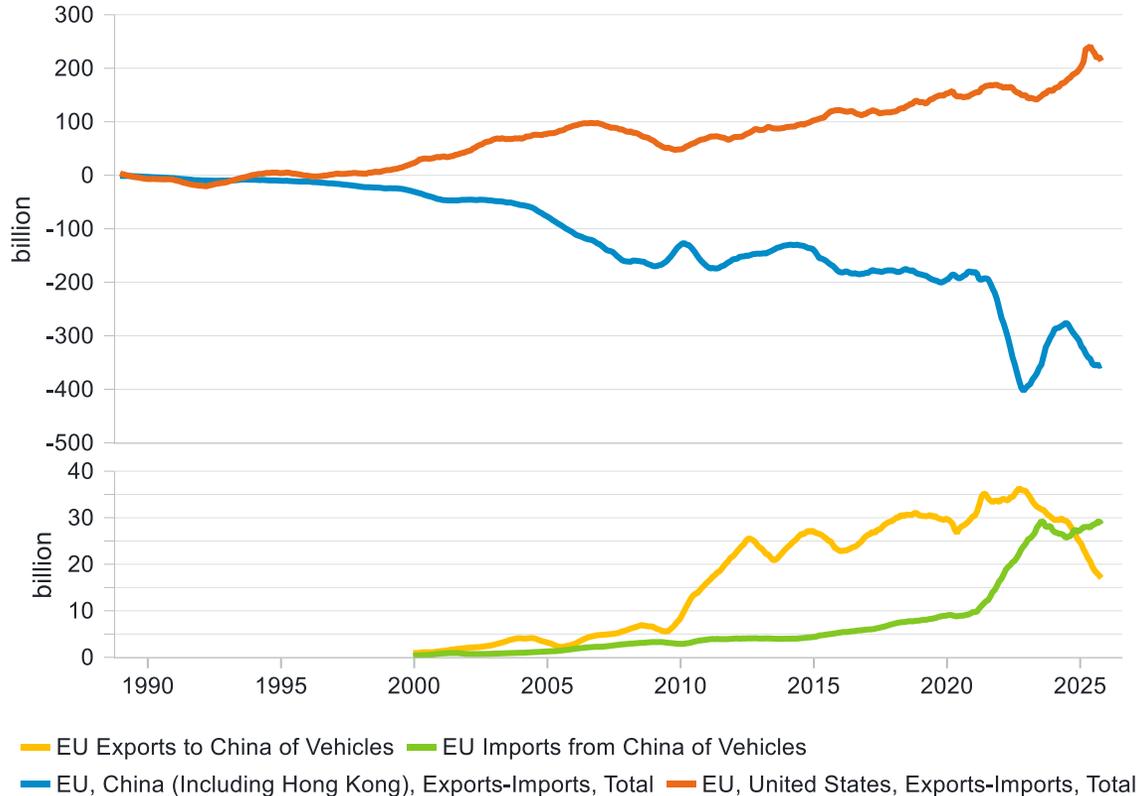


Source: Fidelity International, Macrobond, DESTATIS, January 2026.

EU trade relations with the US and China present diverging challenges

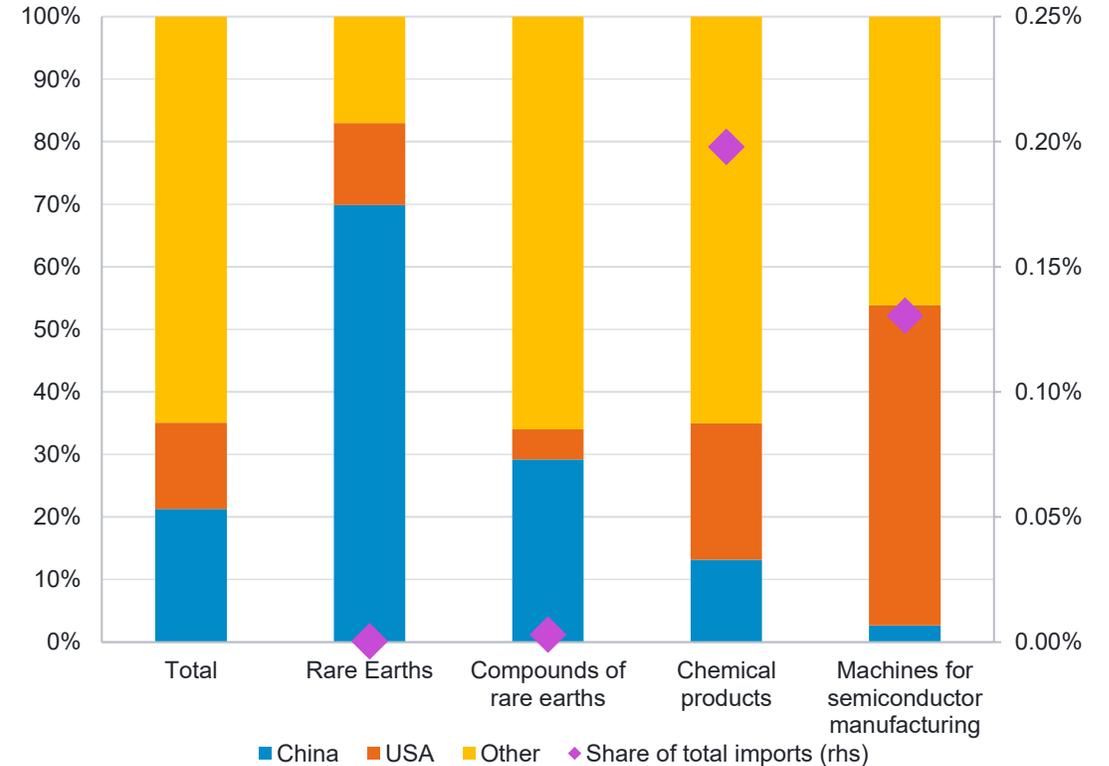
EU faces disruption from ongoing US tariffs, China supply chain reliance and China goods diversion

EU net exports to the US and China show two sided challenges



Source: Fidelity International, Macrobond, Eurostat, January 2026. Chart shows 1Y rolling sum

China makes up a high proportion of EU critical imports

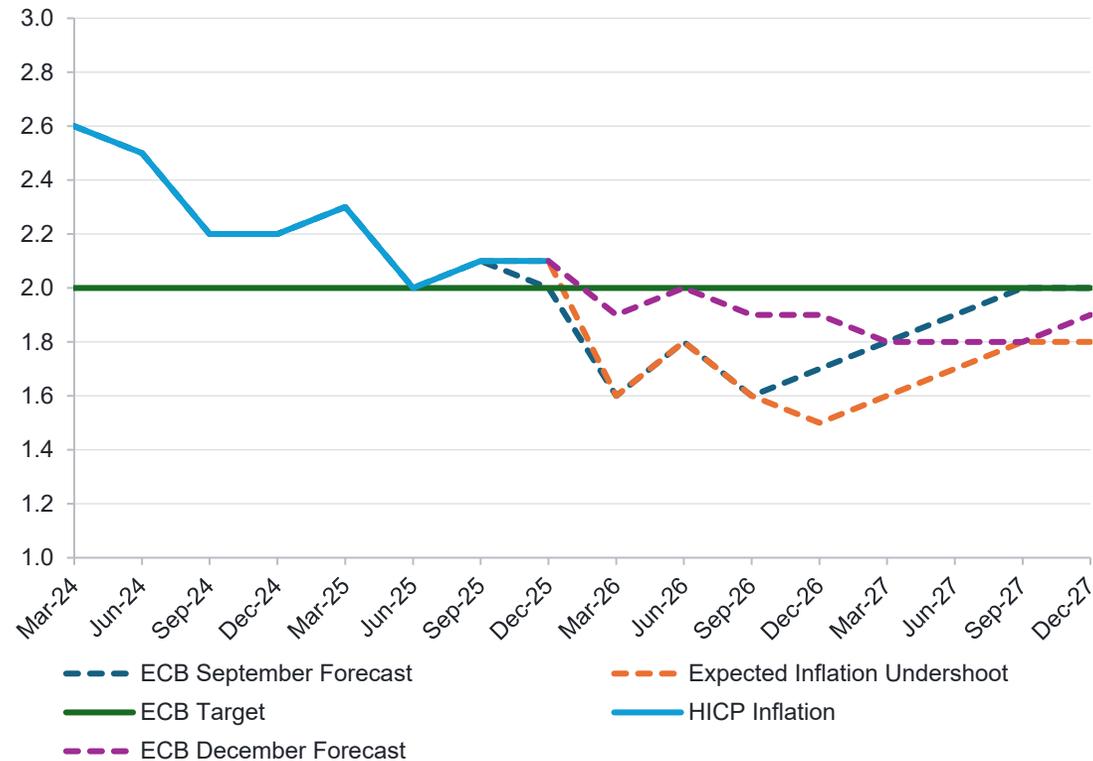


Source: Fidelity International, Eurostat, January 2026

Lower wage growth to aide disinflation, ECB easing will eventually be required

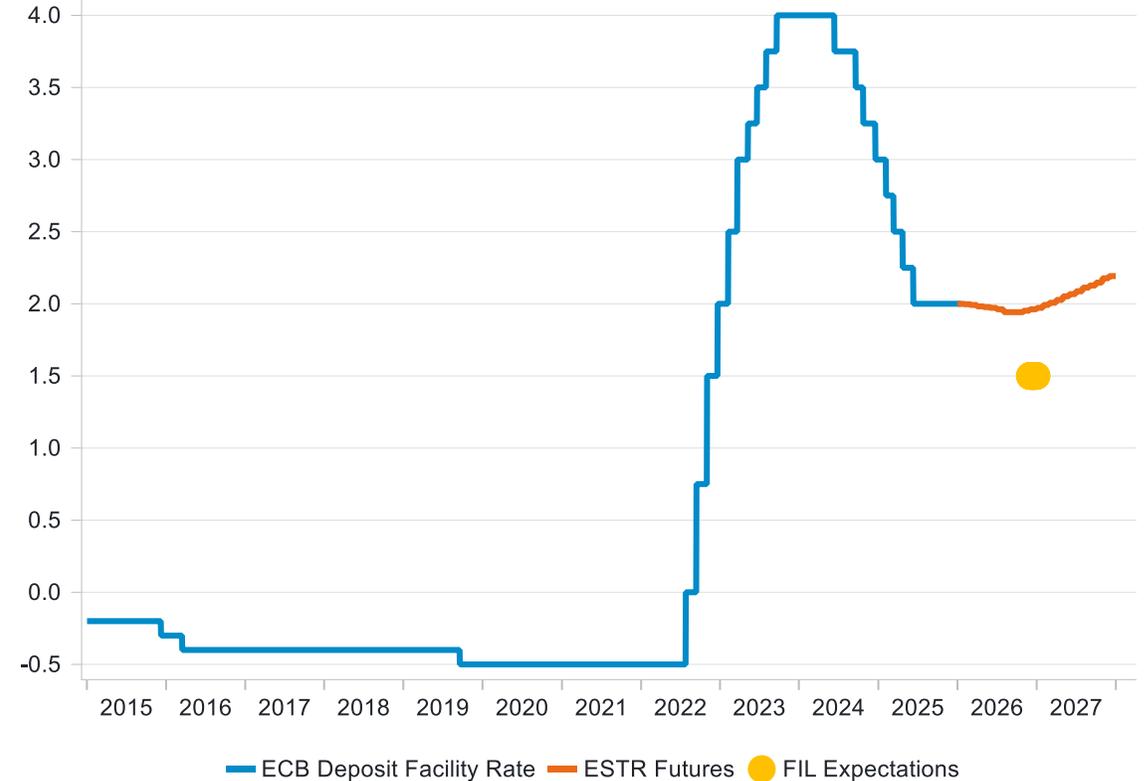
Lower energy prices, currency appreciation, trade tensions and soft goods inflation to bring downside risks

ECB likely to revisit forecasts in March as undershoot manifests



Source: Fidelity International, ECB, January 2026

ECB to cut as inflation proves persistent in latter half of year

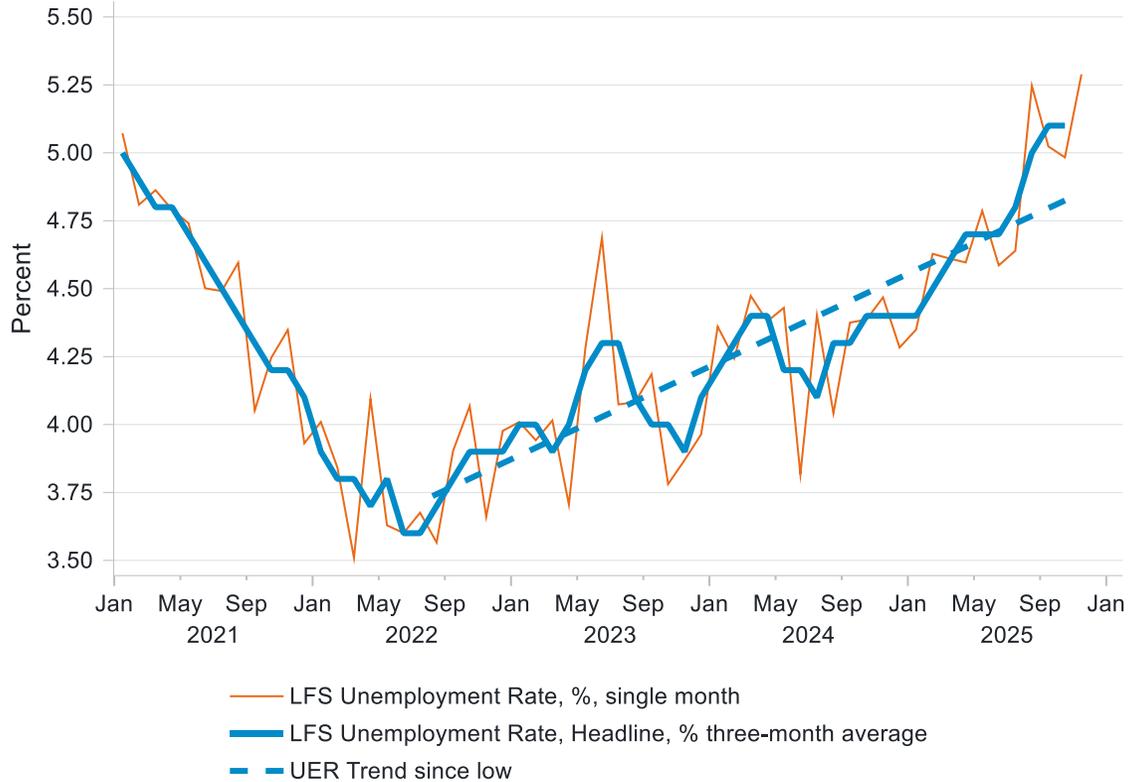


Source: Fidelity International, Macrobond, ECB, January 2026.

UK: Labour market deterioration intensified in late 2025

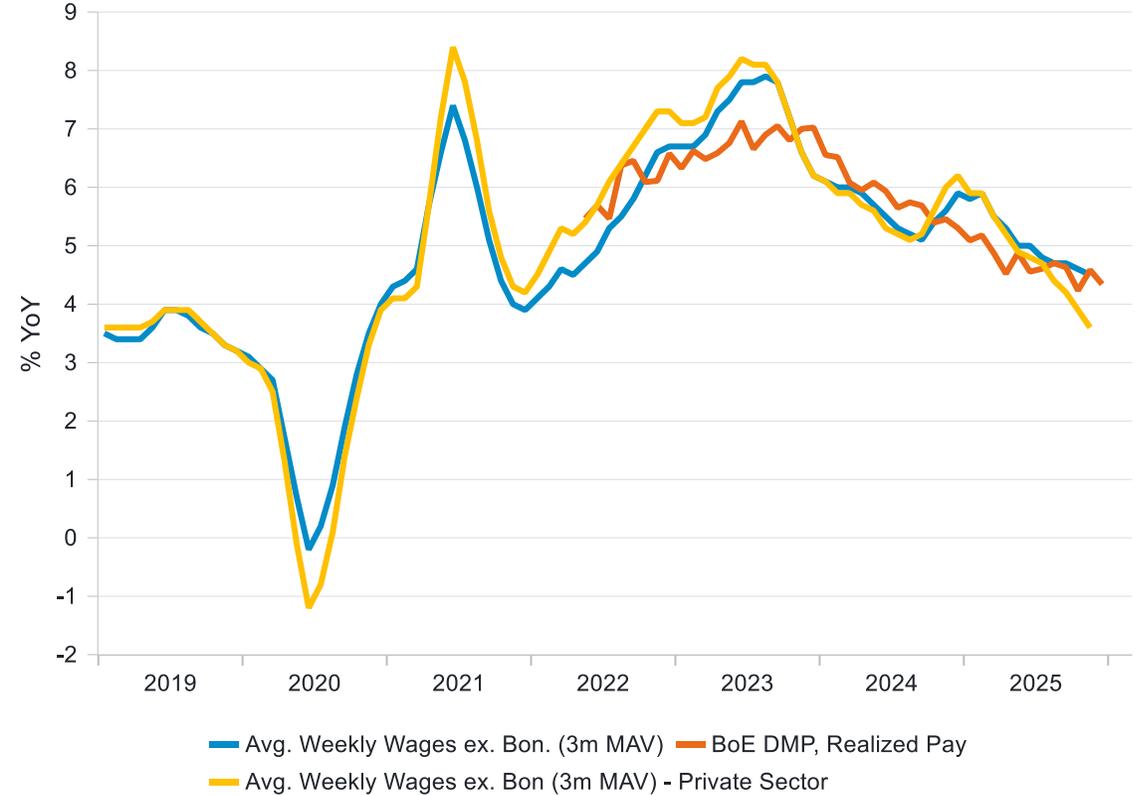
The unemployment rate has risen while private sector wage disinflation continues at a strong pace

The unemployment rate continues to trend upwards



Source: Fidelity International, Macrobond, ONS, January 2026.

As private sector wages trend clearly downwards

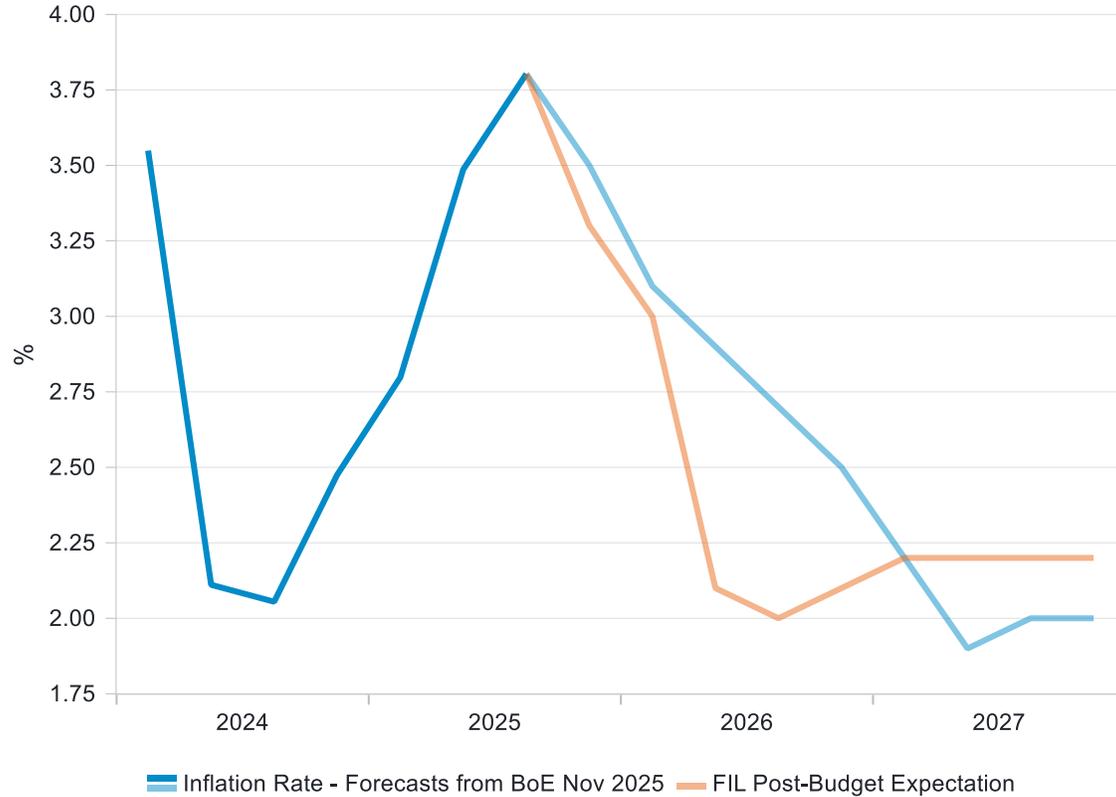


Source: Fidelity International, Macrobond, ONS, BoE, Indeed Hiring Lab, January 2026.

BoE to cut more than expected owing to disinflation and a weak labour market

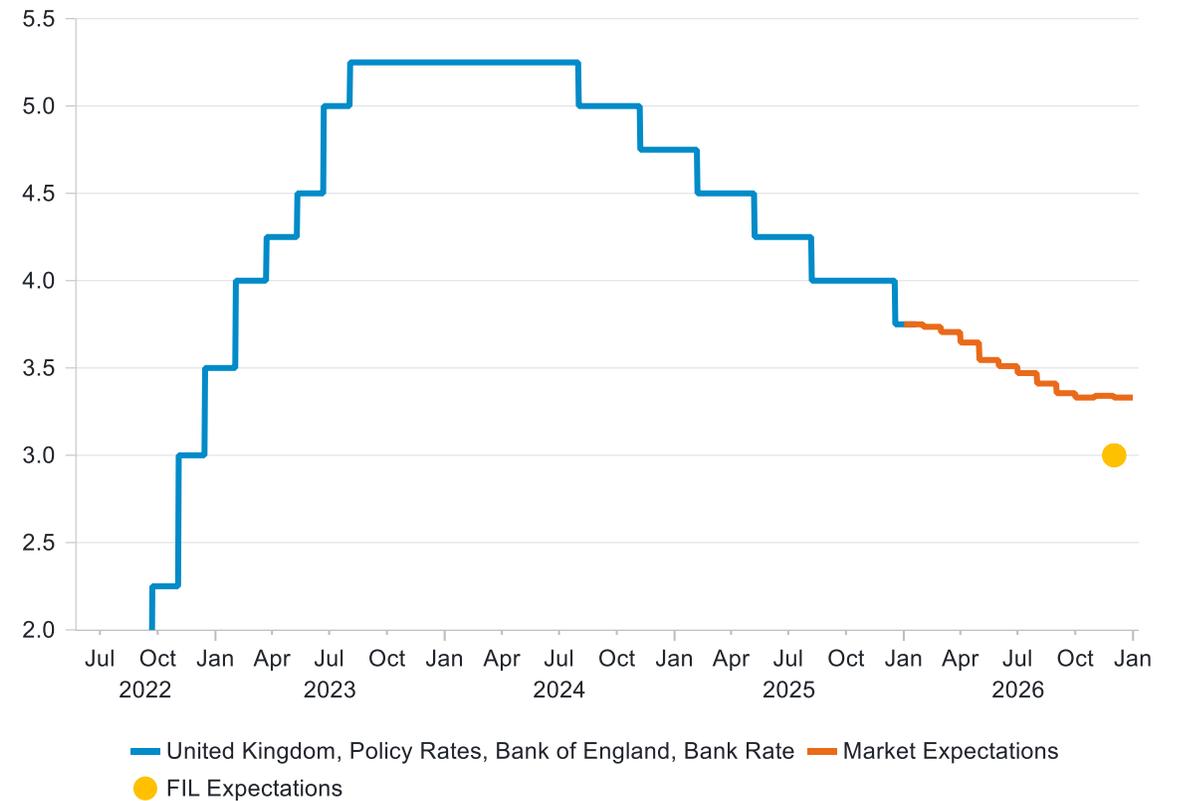
Disinflation to proceed with inflation expected close to target by mid 2026

Budget measures and recent softness will fuel disinflation



Source: Fidelity International, Macrobond, ONS, January 2026.

Bank of England likely to cut by more than markets expect

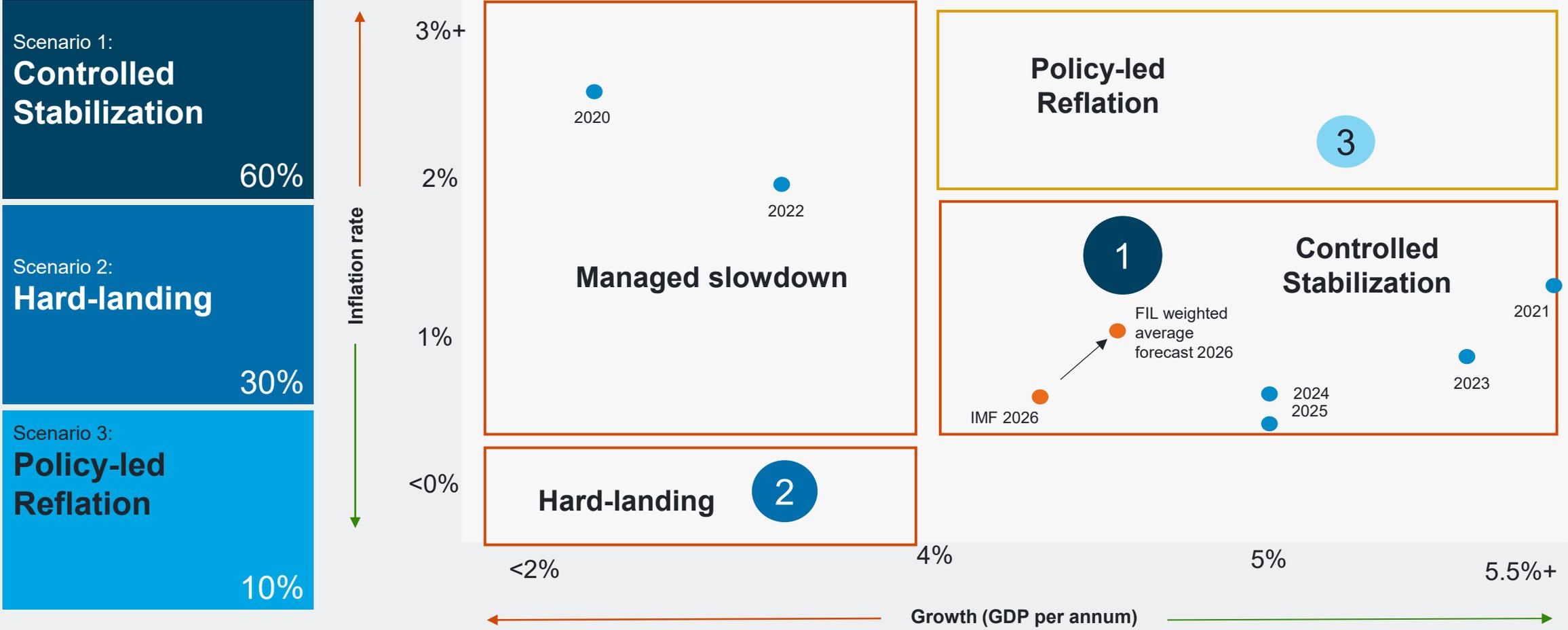


Source: Fidelity International, Macrobond, BoE, January 2026.

China Macro Outlook

Three Scenarios for China in 2026

The rebalancing of the dual circulation growth model



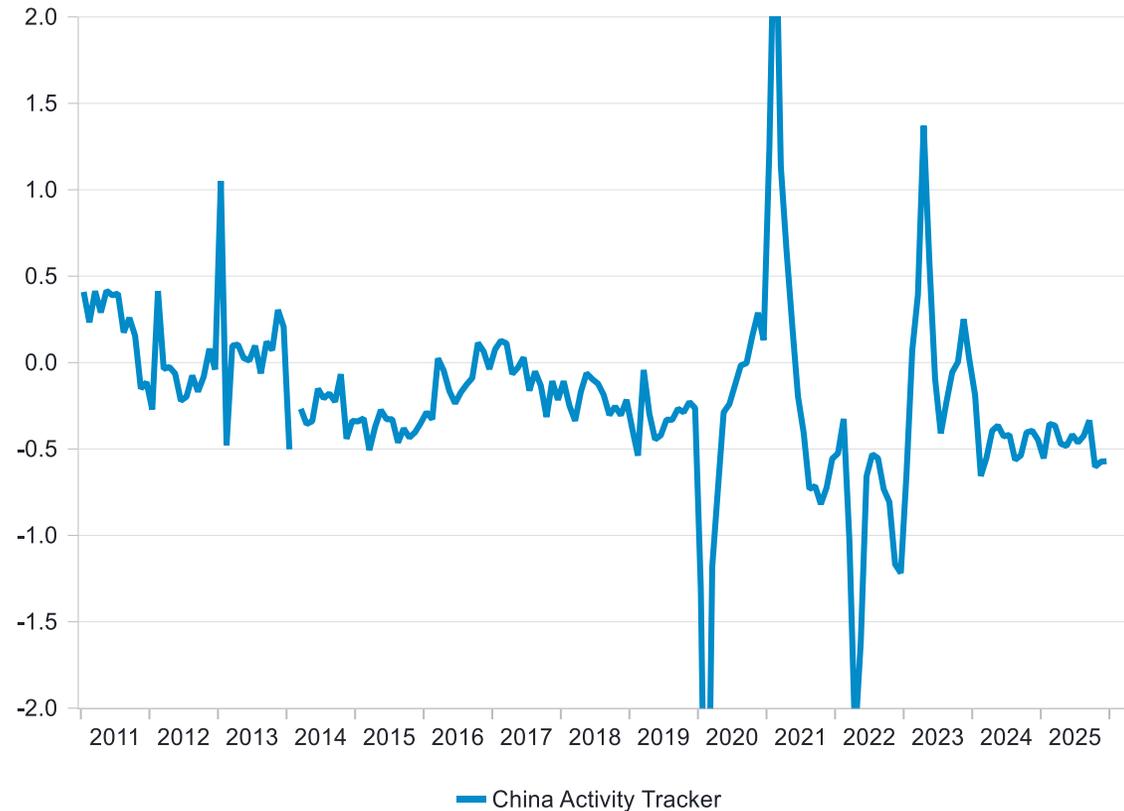
Source: Fidelity International, January 2026

Note: Arrow in the chart denotes the latest revision by IMF, which is converging towards FIL's weighted average calculation of GDP and inflation outlook.

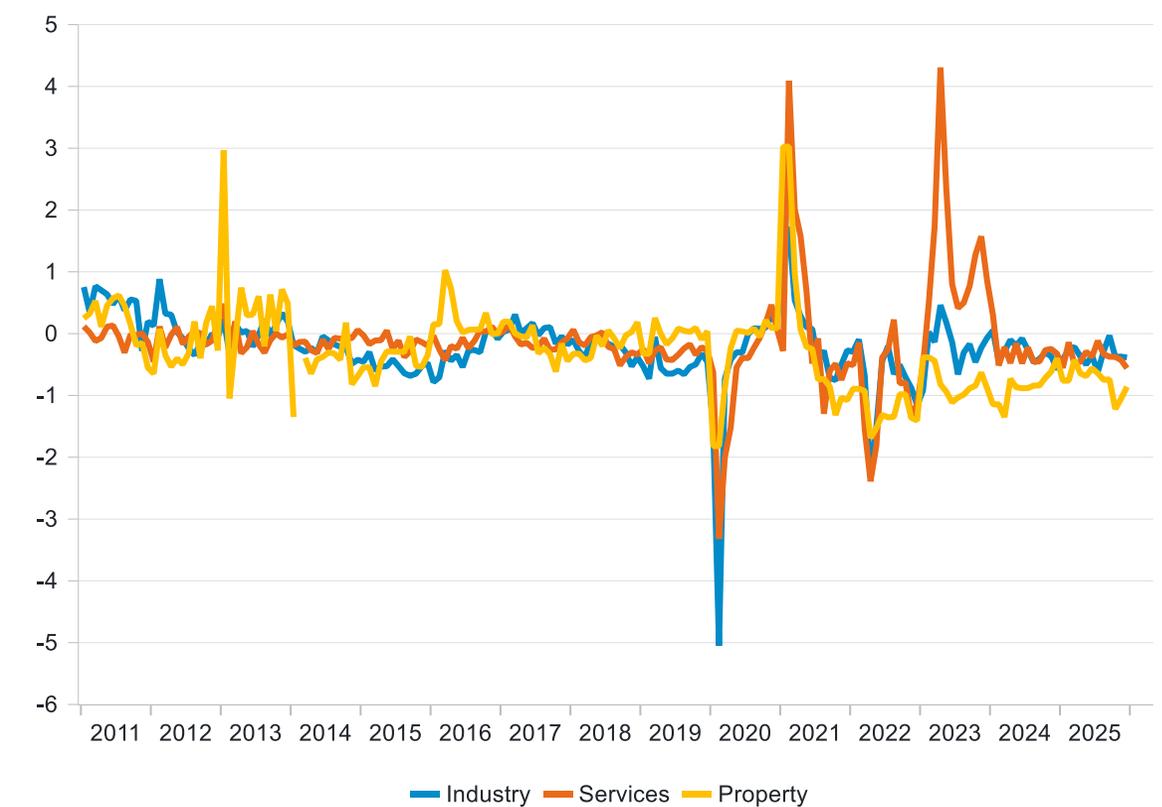
China activity indicator temporarily stabilized at low levels

Mainly driven by property sector deterioration while manufacturing and services sectors remain choppy

China activity indicator (CH-AI)



China activity indicator (CH-AI) by sector



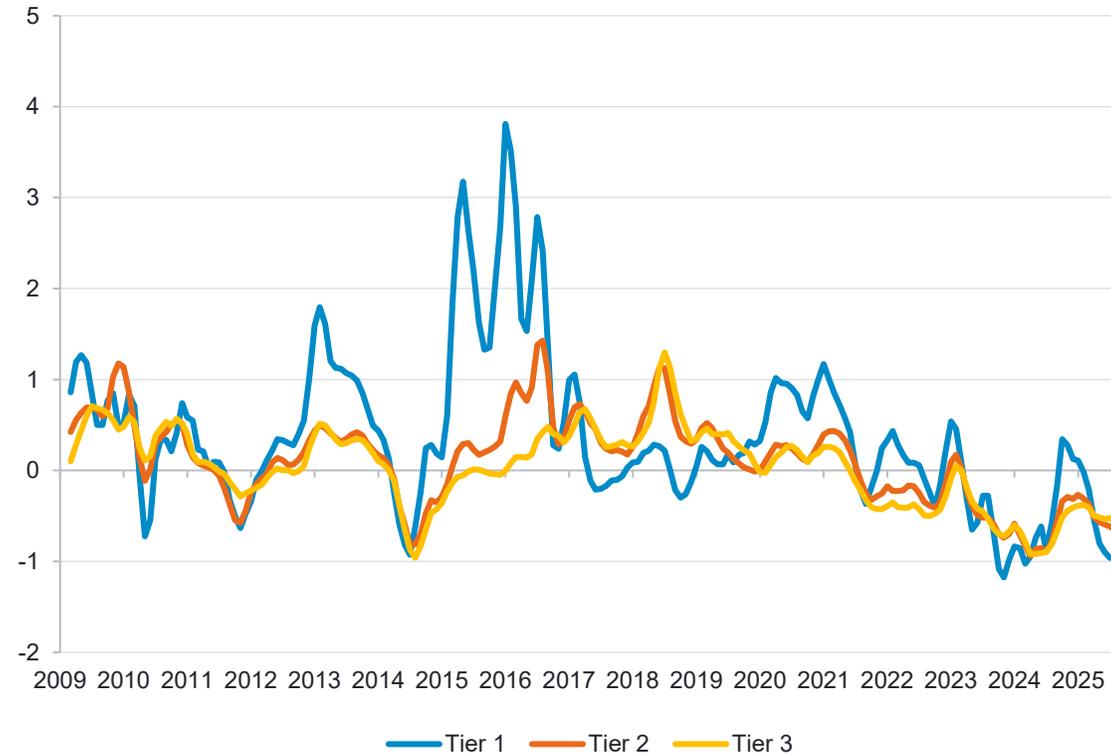
Source: Fidelity International, Macrobond, January 2026

Source: Fidelity International, Macrobond, NBS, China National Bureau of Statistics (NBS), January 2026

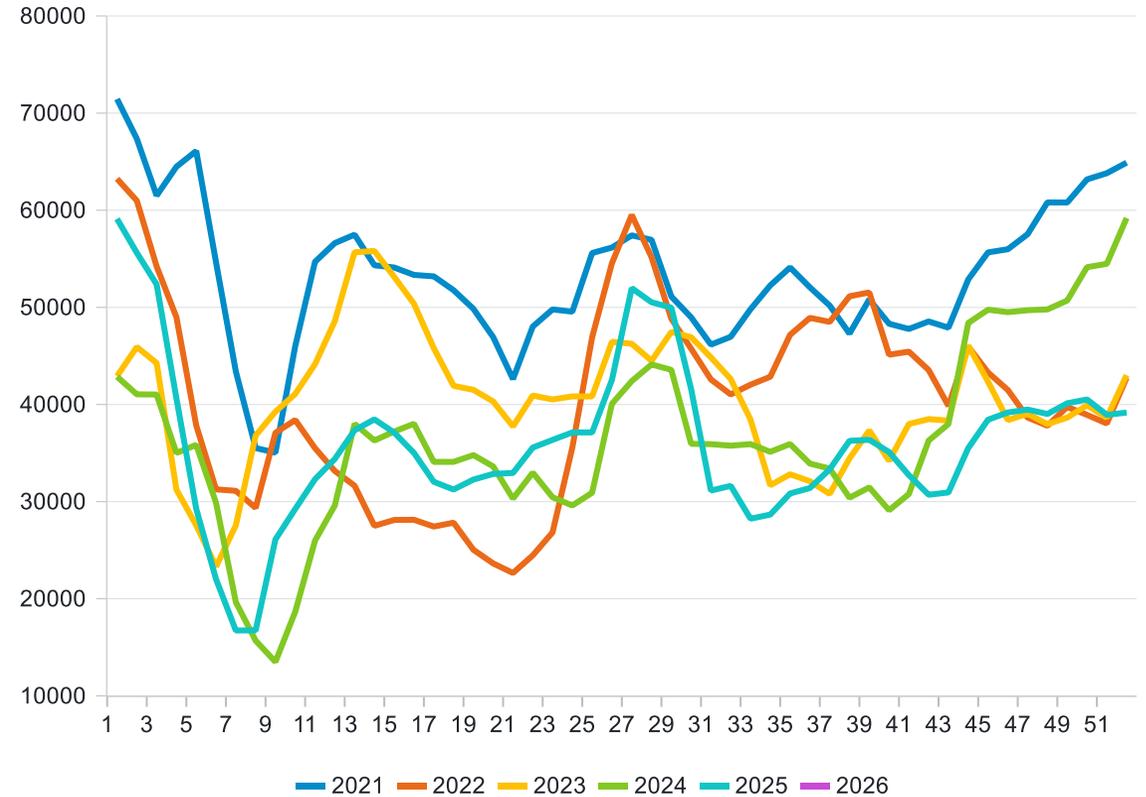
Property sector recovery is not gaining traction

There are signs of a renewed slowdown in the property sector, especially in bigger cities

Property price (Resale, MoM %)



Property transaction volume in Tier 1 cities



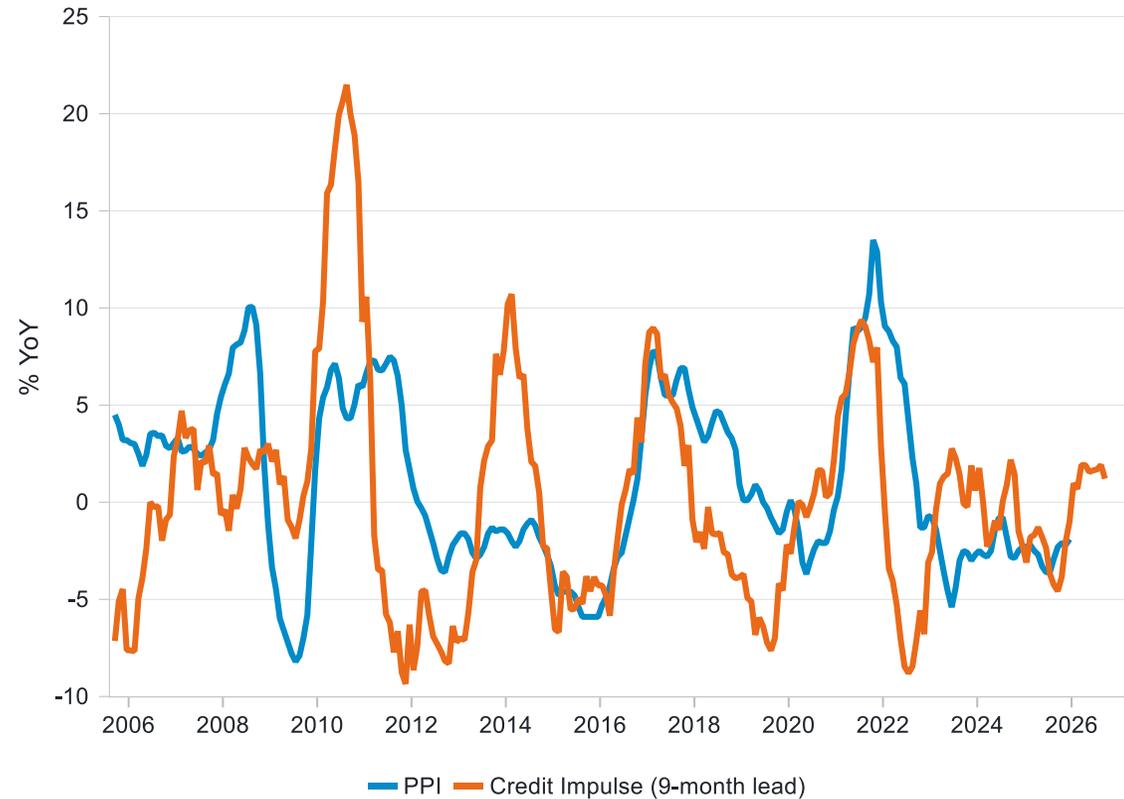
Source: Fidelity International, Bloomberg, November 2025.

Source: Fidelity International, Macrobond, CREIS, January 2026.

Inflation and policy outlook

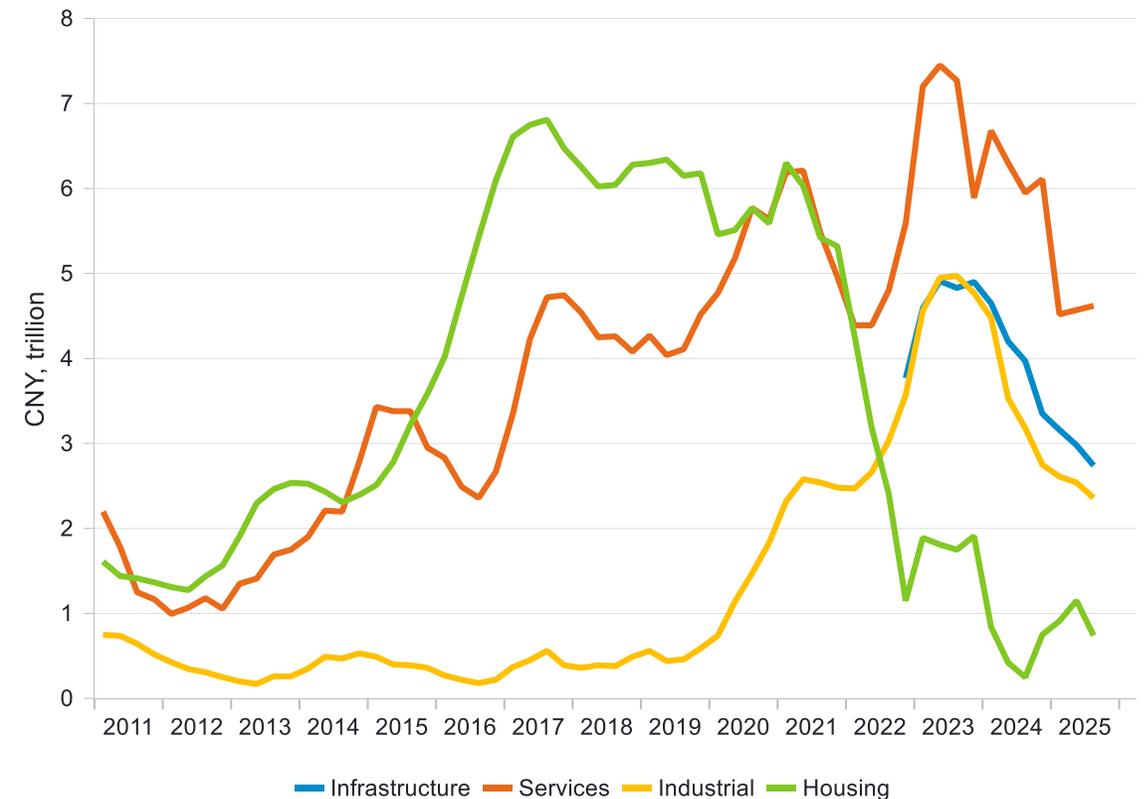
Fiscal spending remains the key lever to support domestic demand as private credit demand is subdued

Credit impulse and PPI



Source: Fidelity International, Macrobond, Bloomberg, NBS, January 2026.

Loans by sectors (YoY change in values)

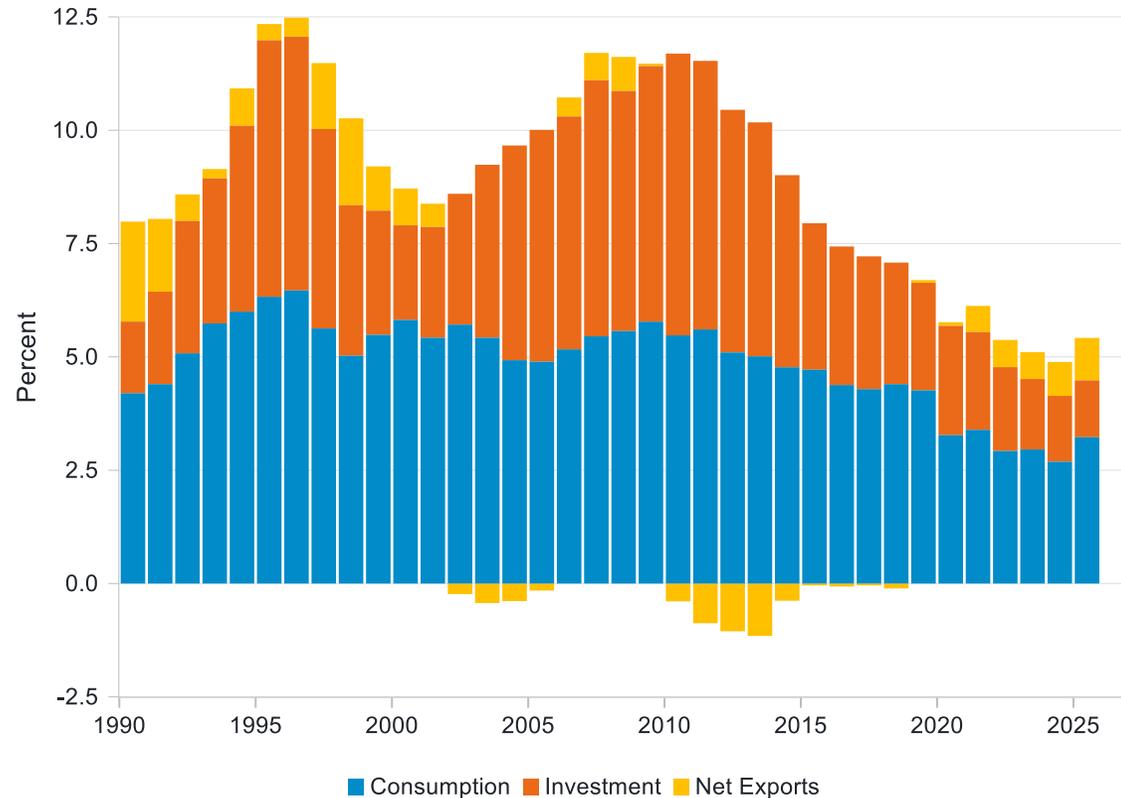


Source: Fidelity International, Macrobond, PBoC, January 2026.

Five Year Plan key takeaways

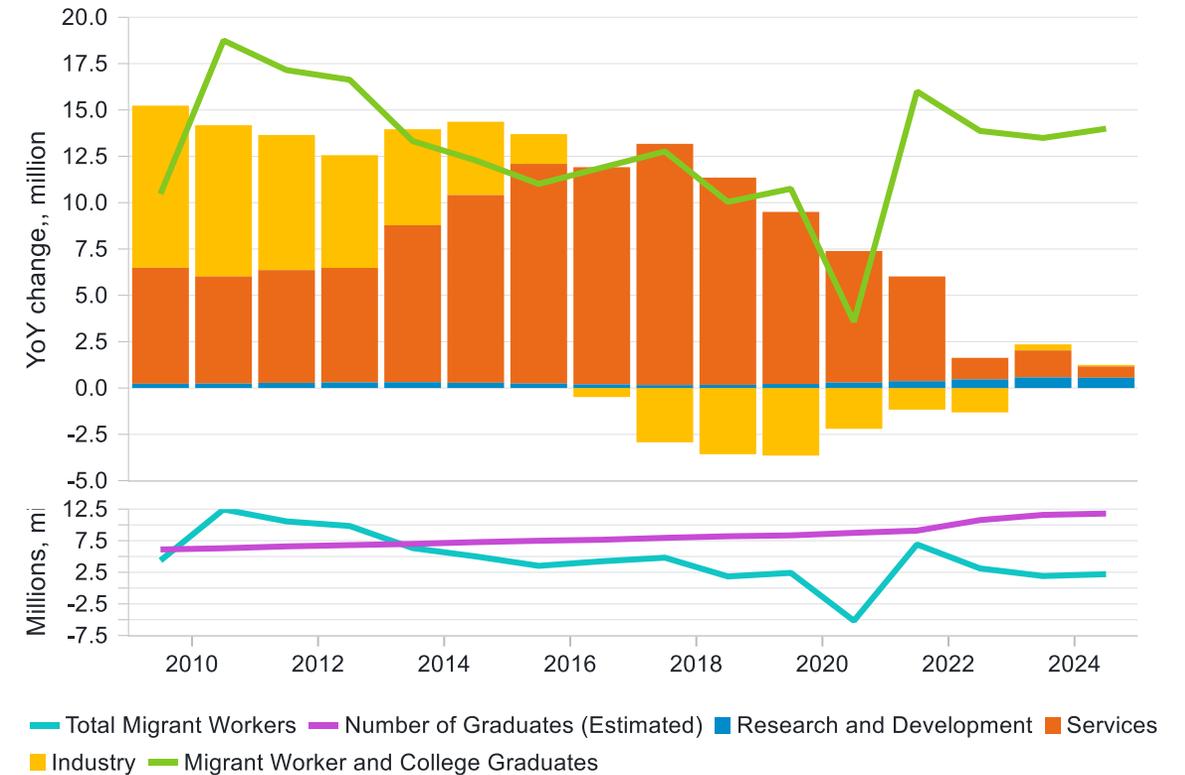
Expanding the services sector is a top priority

GDP by contribution (5-year moving average)



Source: Fidelity International, Macrobond, Macrobond, China National Bureau of Statistics (NBS), January 2026.

Employment change and newly added labour (5-year average)



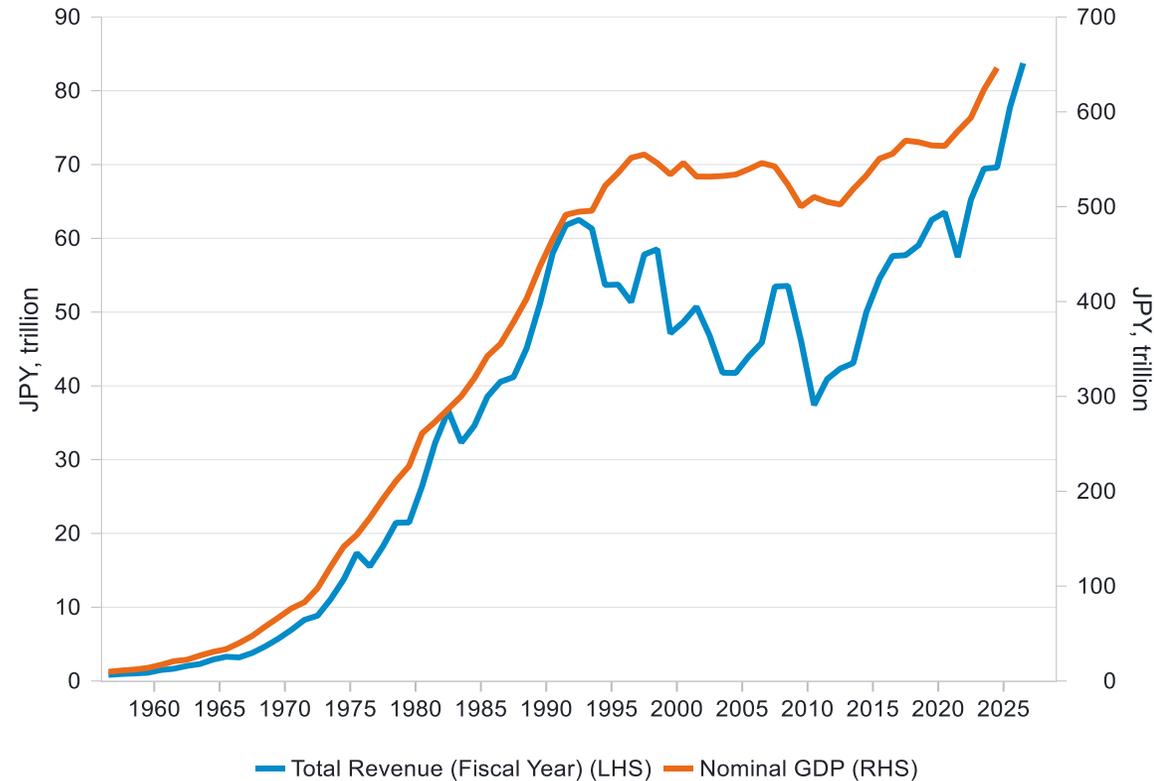
Source: Fidelity International, Macrobond, Macrobond, China National Bureau of Statistics (NBS), China Ministry of Education, January 2026.

Japan Macro Outlook

Improving nominal growth in Japan

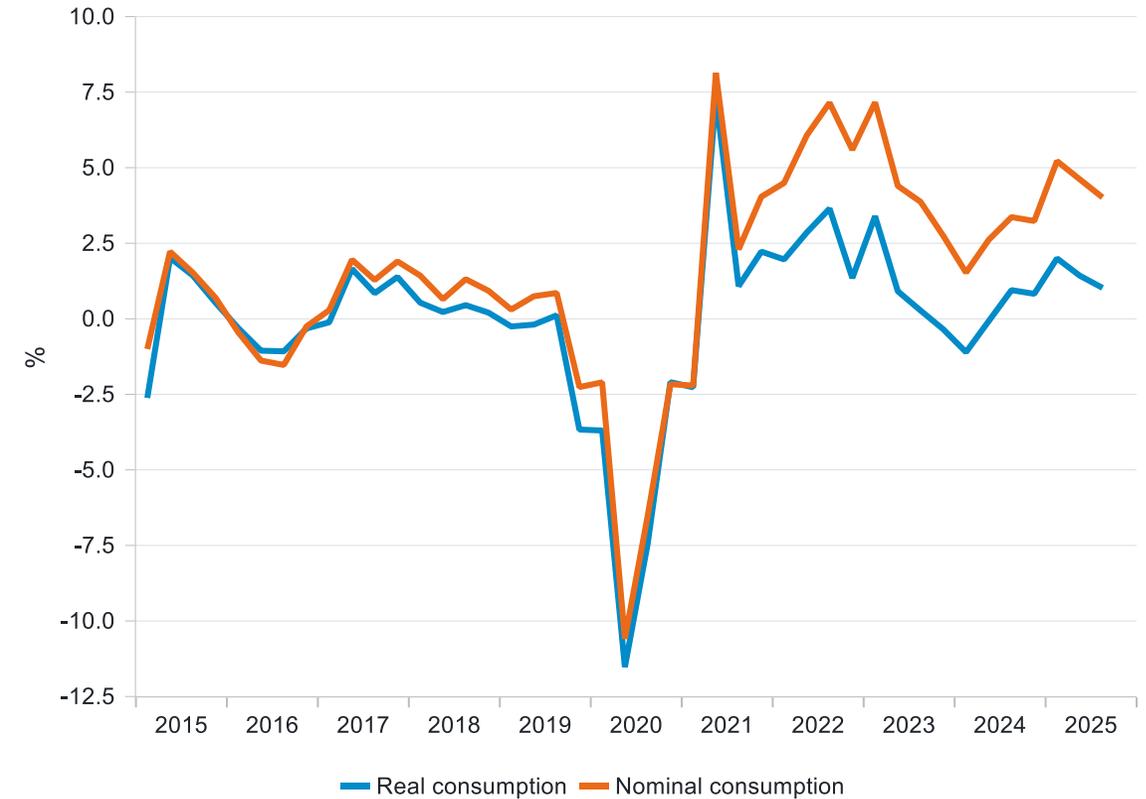
Tax revenues are increasing due to higher nominal growth, giving more room for fiscal support for households

Nominal GDP and total tax revenue



Source: Fidelity International, Macrobond, MOF, CAO, January 2026.

Japan private consumption

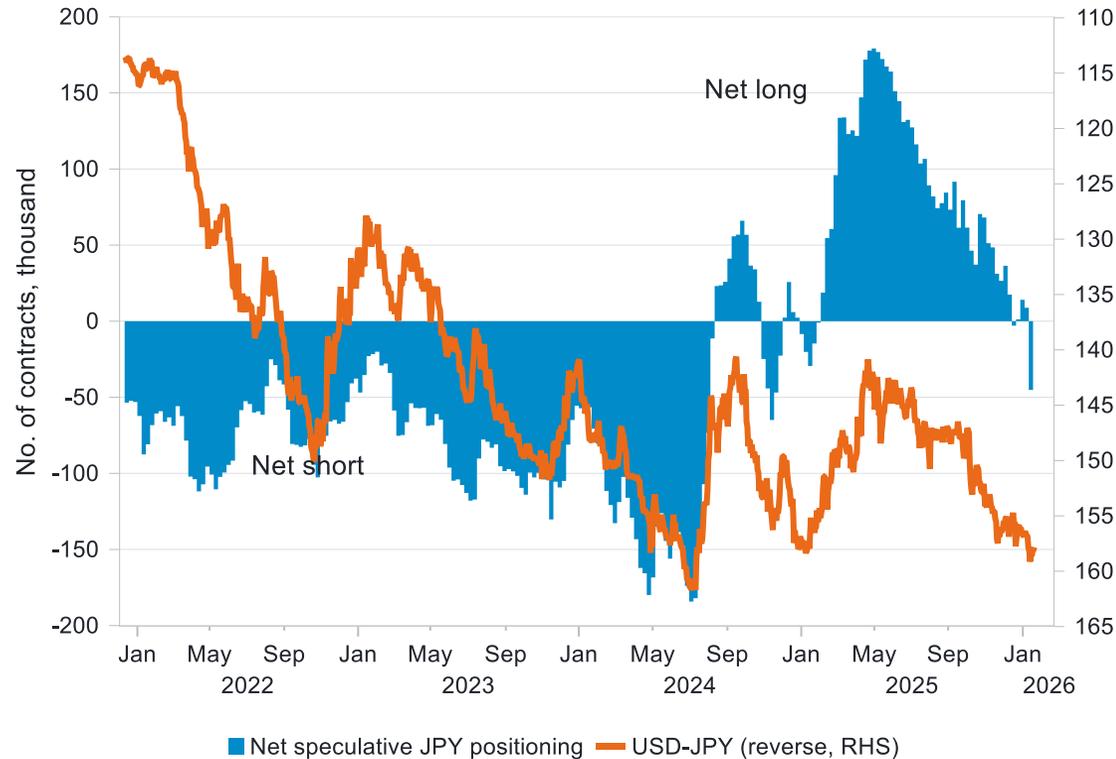


Source: Fidelity International, Macrobond, CAO, January 2026.

Japan's snap election and policy outlook

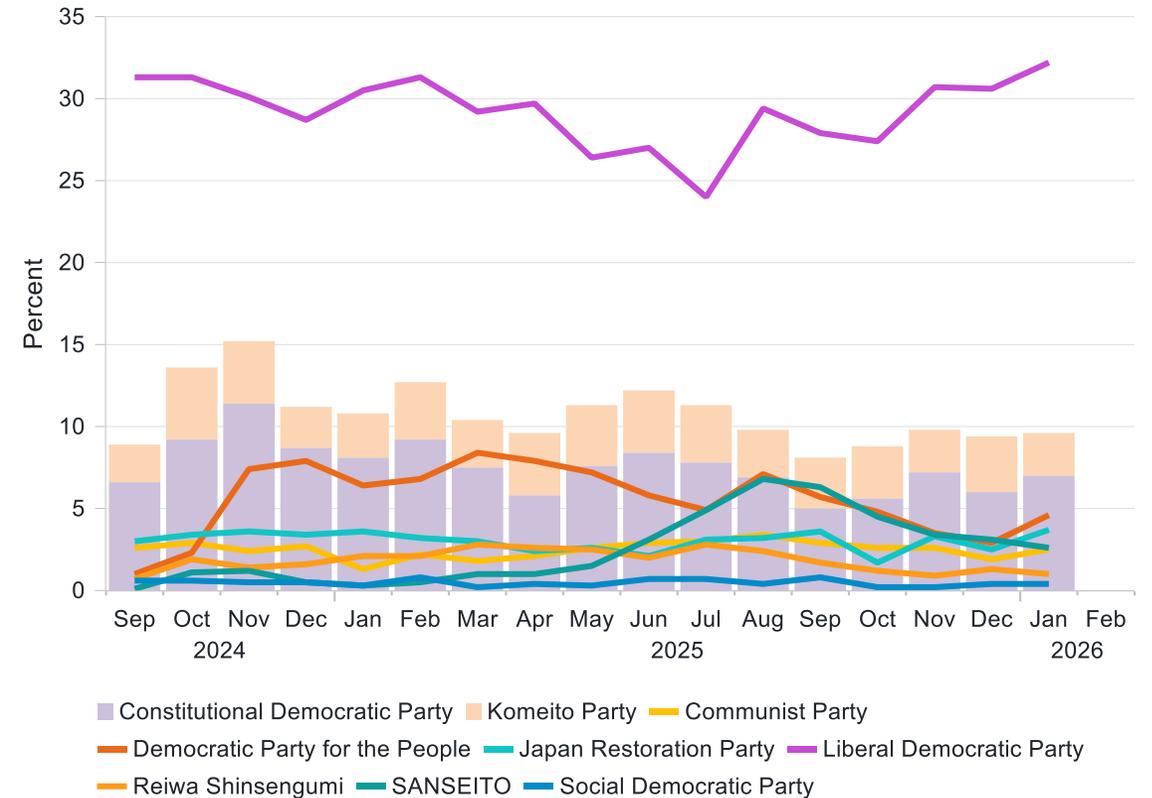
Takaichi announces snap election to consolidate power, fiscal policy outlook remains the focal point

USDJPY and speculative positioning



Source: Fidelity International, Macrobond, Bloomberg, January 2026

NHK Opinion polls

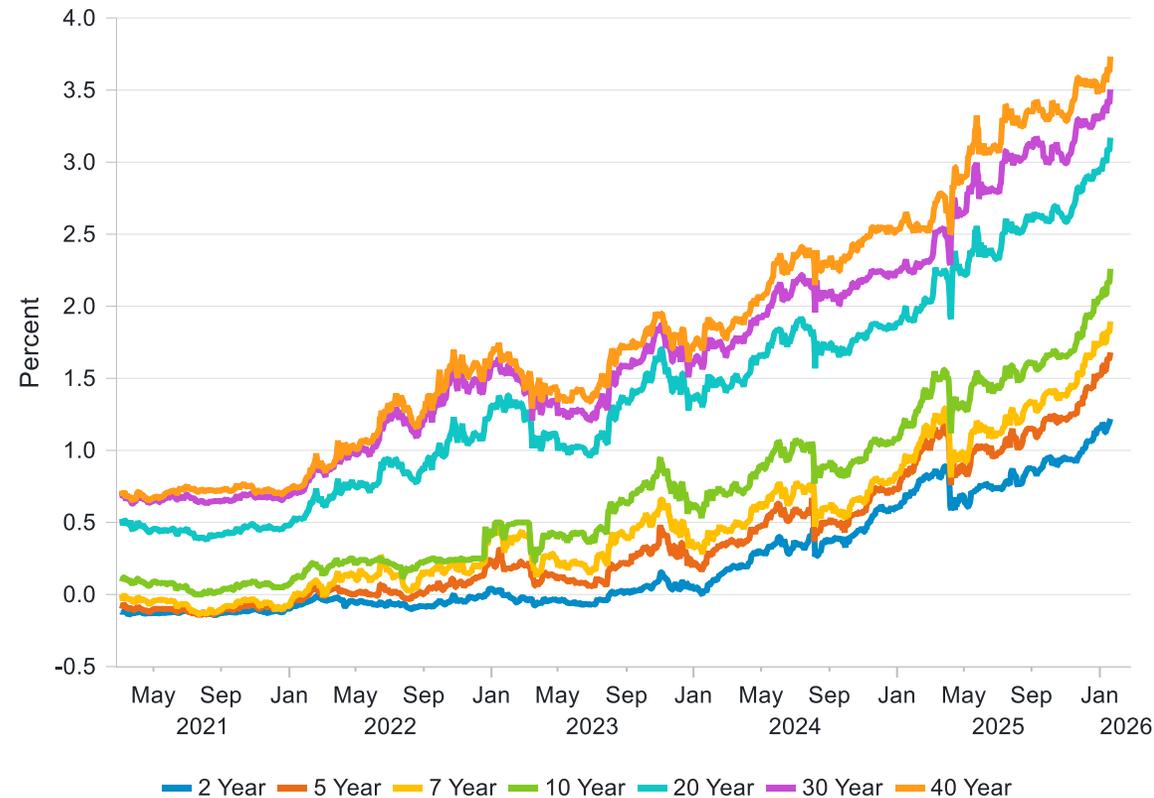


Source: Fidelity International, Macrobond, NHK, January 2026.

Fiscal concerns put more pressure on JGB yields

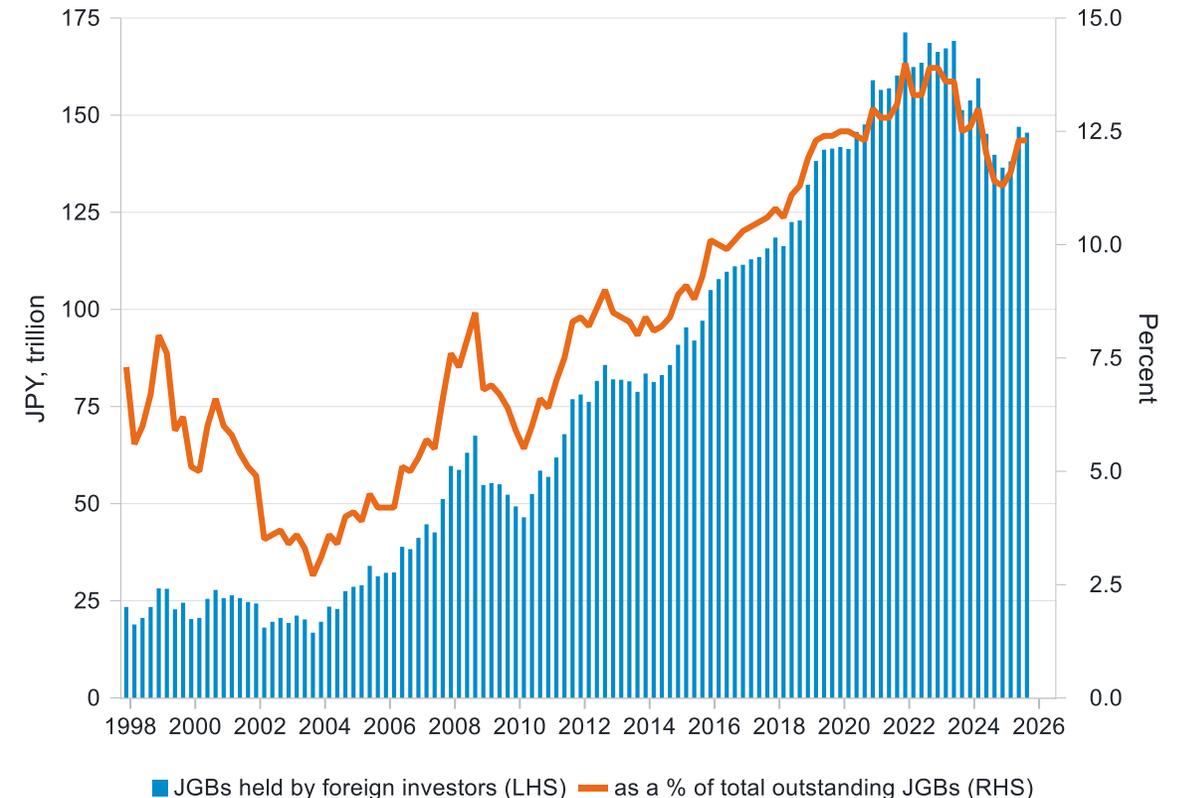
Rising foreign participation in bond market may lead to higher volatility and contagion in global markets

JGB yields



Source: Fidelity International, Macrobond, Macrobond, January 2026.

Foreign ownership of JGBs

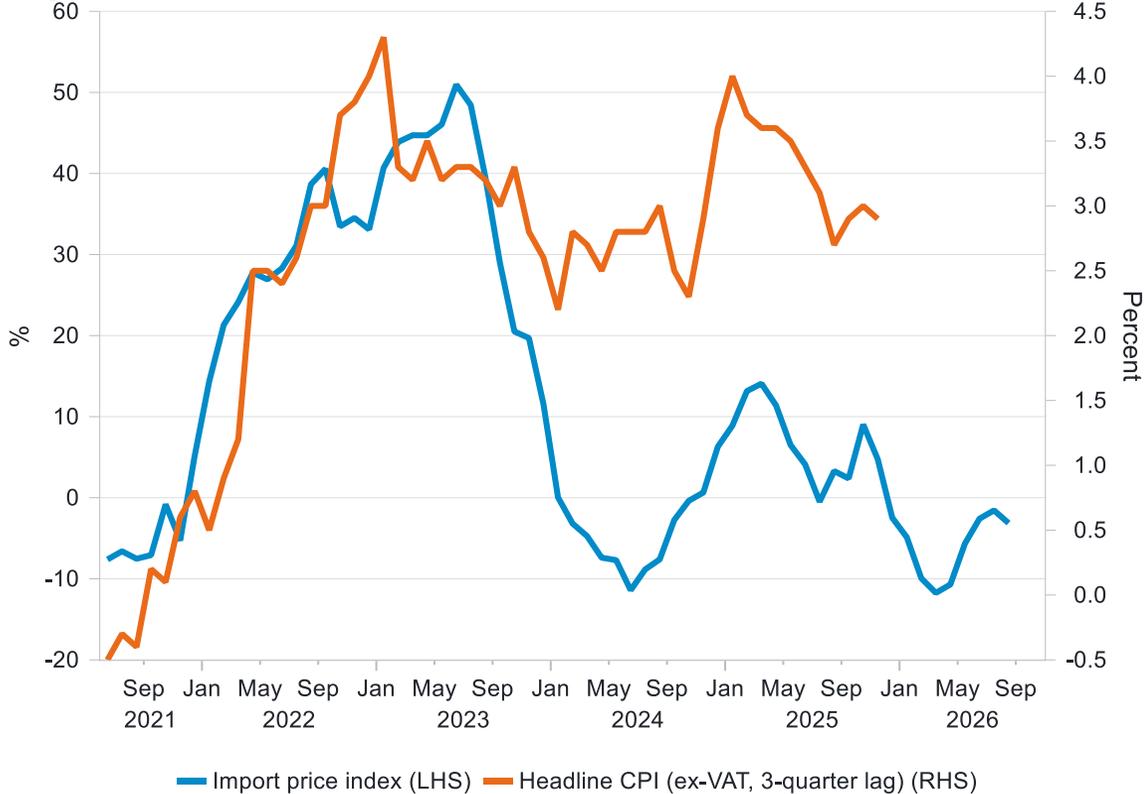


Source: Fidelity International, Macrobond, MOF, January 2026.

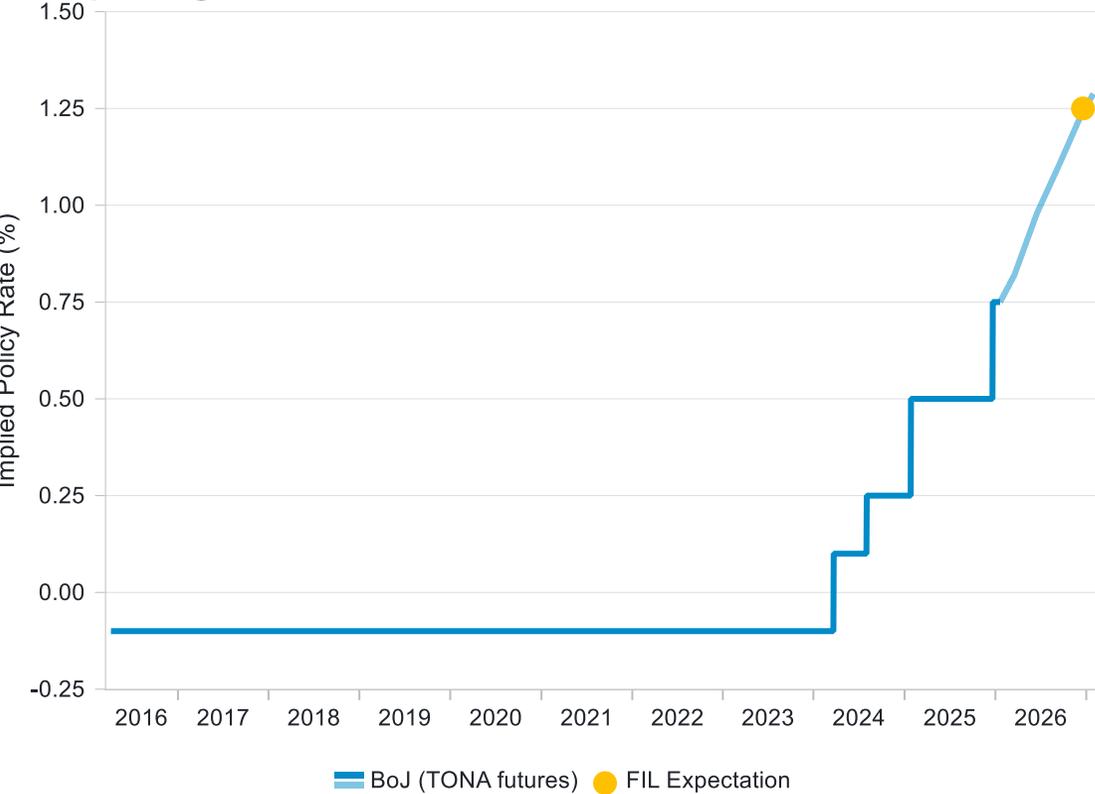
Japan's underlying inflation and BOJ outlook

If PM Takaichi pursues aggressive fiscal easing, inflationary pressure will return, forcing BOJ into more hikes.

Imported inflation and CPI



BOJ pricing



Source: Fidelity International, Macrobond, MOF, SBJ, January 2026.

Source: Fidelity International, Macrobond, BOJ, JPX, January 2026.

Investment implications

TAA views summary

		--	-	=	+	++	Snapshot of views
Equities	Equities				●		Resilient earnings, easing financial conditions and reduced downside risks support a continued pro-risk stance.
	US				●		Earnings remain strong, but valuations are full and policy uncertainty keeps US exceptionalism in question. We continue to prefer structural stories such as the “grid upgrade”.
	Europe				●		Valuations are no longer cheap and political risks persist, but German fiscal spending supports selective opportunities.
	UK				●		Earnings momentum is subdued and growth remains weak, though valuations and currency weakness offer some support.
	Japan					●	Positive earnings momentum, rising dividends and domestic reforms outweigh trade and policy uncertainty.
	Emerging markets					●	Improving growth momentum, attractive valuations and a weaker medium-term dollar underpin select EM opportunities.
	Asia Pacific ex. Japan					●	Australia’s outlook has improved, particularly for materials, but valuations keep us cautious.
Credit	Credit		●				Tight spreads, especially in investment grade, limit upside despite still-solid fundamentals.
	Investment grade		●				Spreads are exceptionally tight and offer poor compensation for duration and liquidity risk.
	High yield				●		Fundamentals remain robust and all-in yields still look attractive, especially as rates are coming down. We prefer short-dated HY.
	Emerging market debt (hard)				●		Fundamentals remain solid here too; spread levels favour a selective focus on local currency opportunities.
Government bonds	Government bonds			→	●		Duration is becoming more attractive as growth concerns rise, though valuation selectivity remains key.
	US Treasuries				●		Yields look fair value, but deficit concerns and inflation risks limit strong conviction.
	Euro core (Bund)		●				Fiscal expansion and less room for ECB cuts make Bunds a preferred funding source.
	UK Gilts					●	Gilts offer decent value and fundamentals are starting to look supportive as inflation shows signs of loosening, allowing the BOE to cut.
	Japanese gov. bonds				●		Yields are more attractive on a currency-hedged basis, but BOJ normalisation limits upside.
	Emerging market gov. bonds (local)					●	There are several EM markets, especially LatAm, with attractive valuations and high real yields. A bounce in the dollar is a key risk to monitor though.
	Inflation linked bonds (US TIPS)				●		Linkers are still a decent hedge against stagflation but are less attractive given budget deficit concerns in the US.
Cash / currencies	Cash				●		Cash remains a useful buffer but offers limited return as easing cycles progress.
	US dollar				●		We are bearish on USD over the medium term given institutional challenges and the Fed’s more dovish stance. However, we are tactically neutral due to the possibility of near-term strength.
	Euro					●	German fiscal support and an ECB near the end of its easing cycle underpin the euro.
	Japanese yen				●		BOJ pivot could be positive as JPY has lagged rate differentials, but fiscal risk following recent elections keeps us neutral for now.
	Sterling		●				Weak growth and fiscal consolidation continue to weigh on the pound.
	Emerging markets FX					●	Attractive carry and improving fundamentals support EM currencies despite some USD volatility. We continue to prefer currencies like ZAR and BRL.

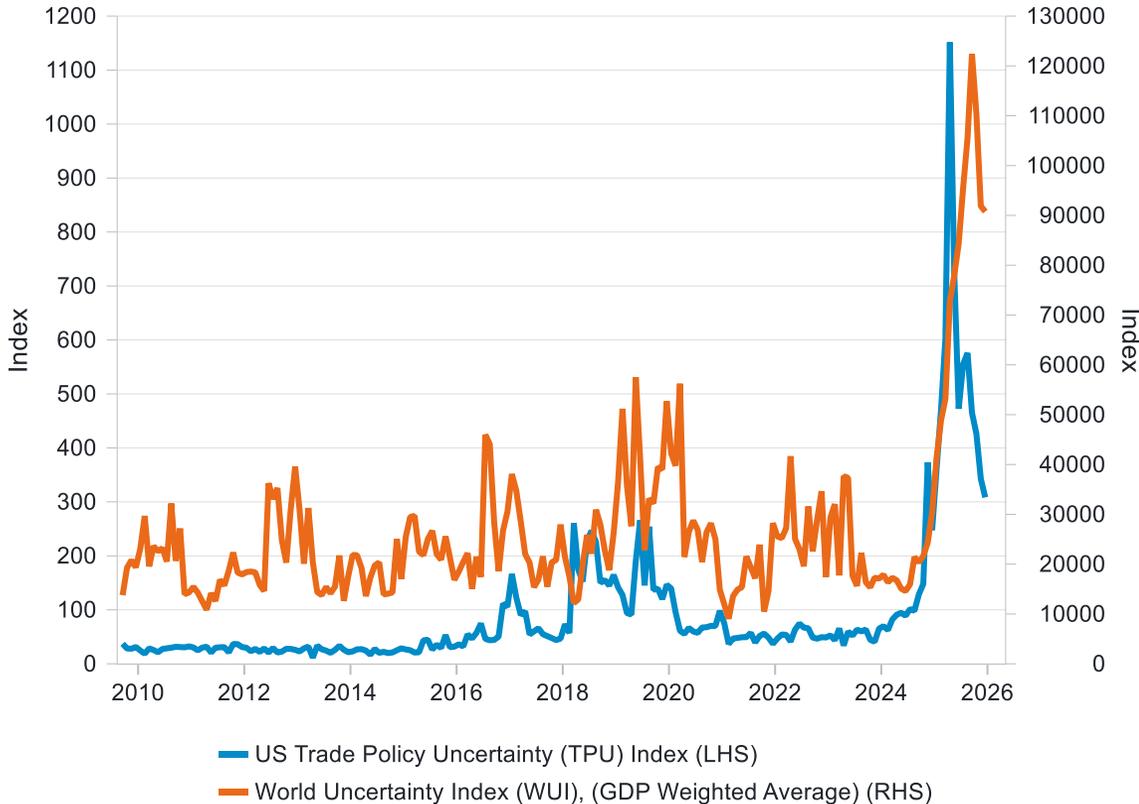
Source: Fidelity International, December 2025. Views reflect a typical time horizon of 12–18 months and provide a broad starting point for asset allocation decisions. However, they do not reflect current positions for investment strategies, which will be implemented according to specific objectives and parameters. Regional equity views use universes defined by MSCI indices.

Appendix

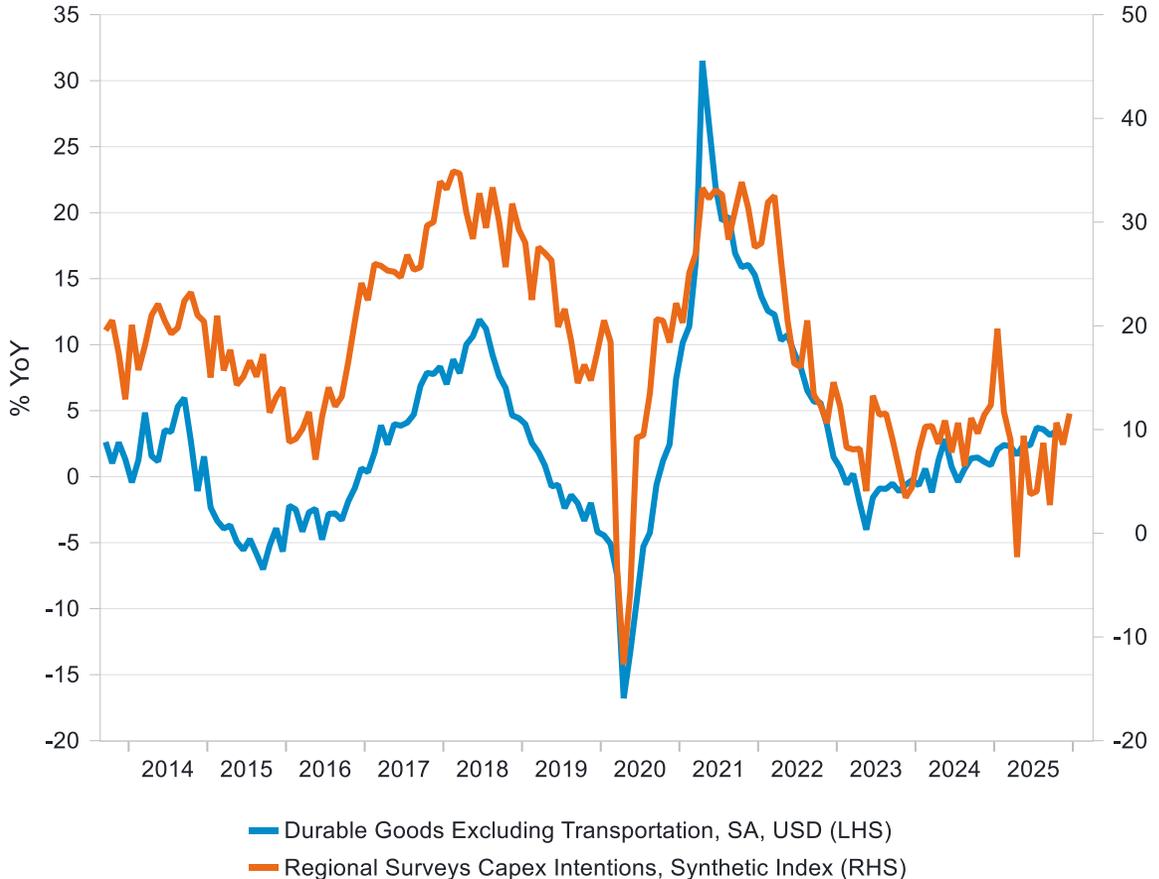
Trade uncertainty remains contained with capex intentions steadily rising

But new round of trade tensions have potential to disrupt the ongoing stabilisation

US and world trade uncertainty index



US durable goods order and regional Fed capex intentions



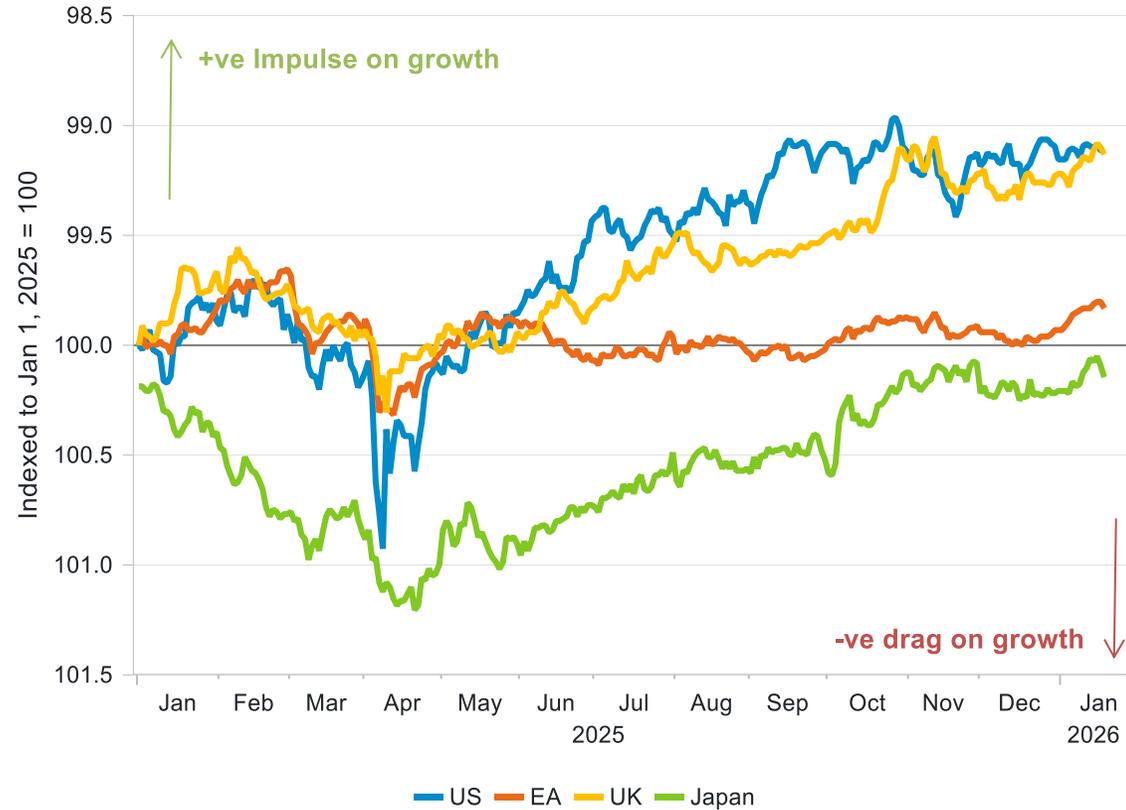
Source: Fidelity International, Macrobond, Matteo Iacoviello, Economic Policy Uncertainty, January 2026.

Source: Fidelity International, Macrobond, US Census Bureau, ISM, Regional Feds, January 2026.

Financial conditions continue to act as a tailwind, particularly for the US

Equity markets are driving most of the gains

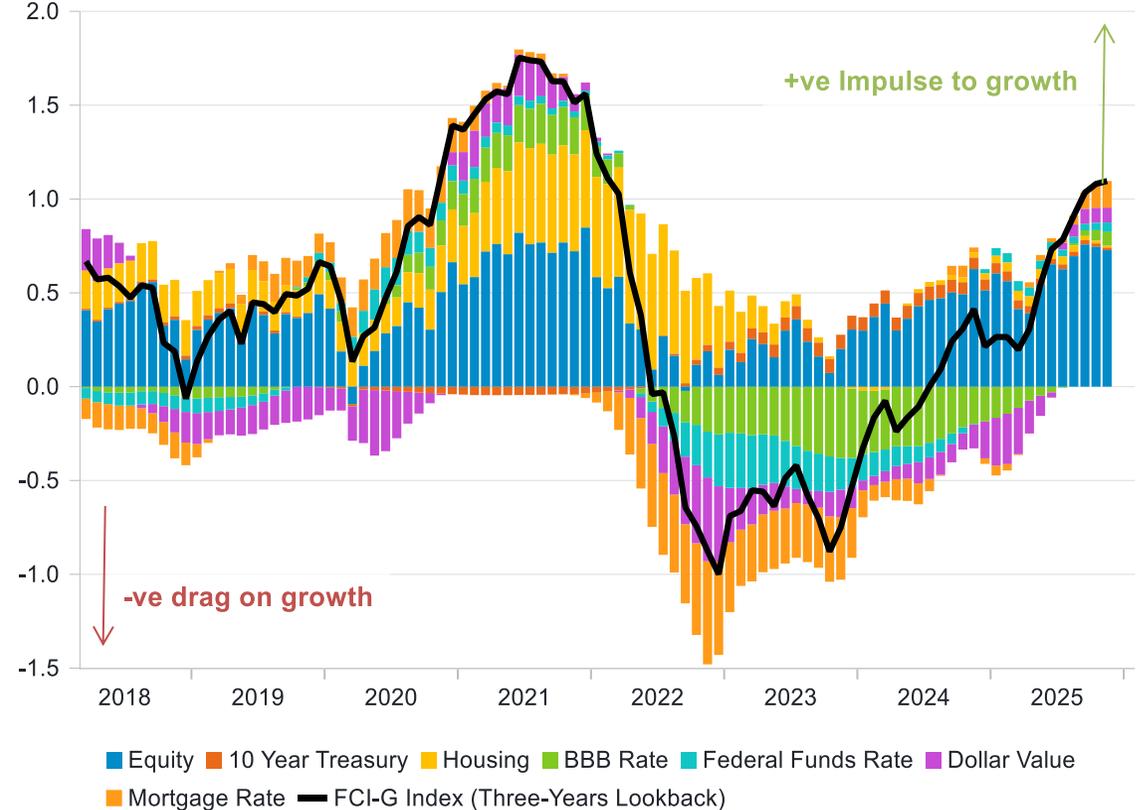
GS financial conditions indices (FCI)



FCI – Financial Conditions Index

Source: Fidelity International, Macrobond, Bloomberg, GS, January 2026.

Federal Reserve's financial conditions index



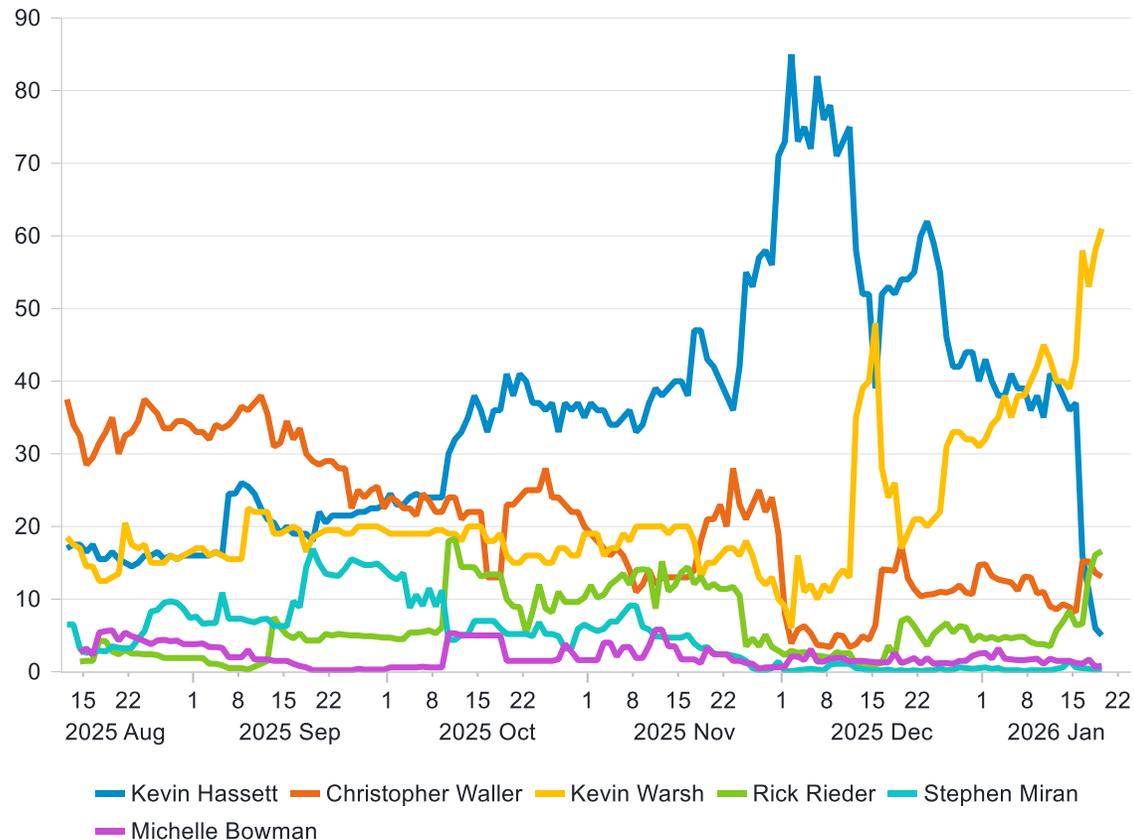
Source: Fidelity International, Macrobond, Fed, January 2026.

Candidates for new Fed seat narrowed down to four

Warsh is the front-runner and Rieder increasingly seen as the dark horse

Polymarket bets for who will be the next Fed chair

Polymarket odds - next Fed chair



Source: Fidelity International, Bloomberg, Polymarket, January 2026.

Bios of key candidates

Christopher Waller, Fed Governor

A Fed governor and former academic, Waller has worked inside the Federal Reserve System for over a decade and is well respected there. His willingness to back a cut in July might appeal to Trump, but his support for a large cut ahead of the presidential election may be less fondly remembered.

Kevin Hassett, Chair of National Economic Council

Hassett has Fed and academic experience and has served in both Trump administrations. He is often seen on US television networks defending the administration's policies and is regarded as a close ally of the president – even though he supported a half-point cut ahead of the presidential election.

Kevin Warsh, Hoover Institution

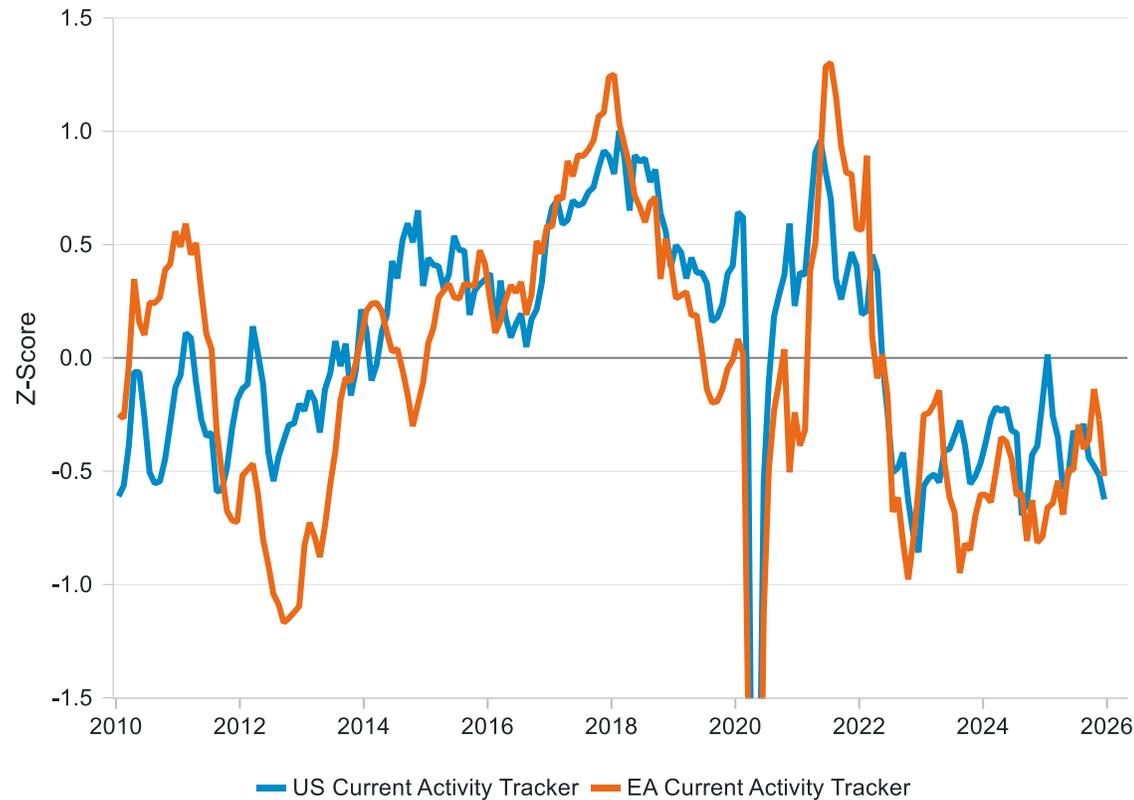
A former Fed governor with Wall Street roots, Warsh missed out to Powell in 2017 and is seen as a favourite this time. His credibility is enhanced by his role at Stanford University's Hoover Institution but his hawkishness – he has criticized the expansion of the Fed's balance sheet – counts against him.

Source: Fidelity International, FT research, October 2025.

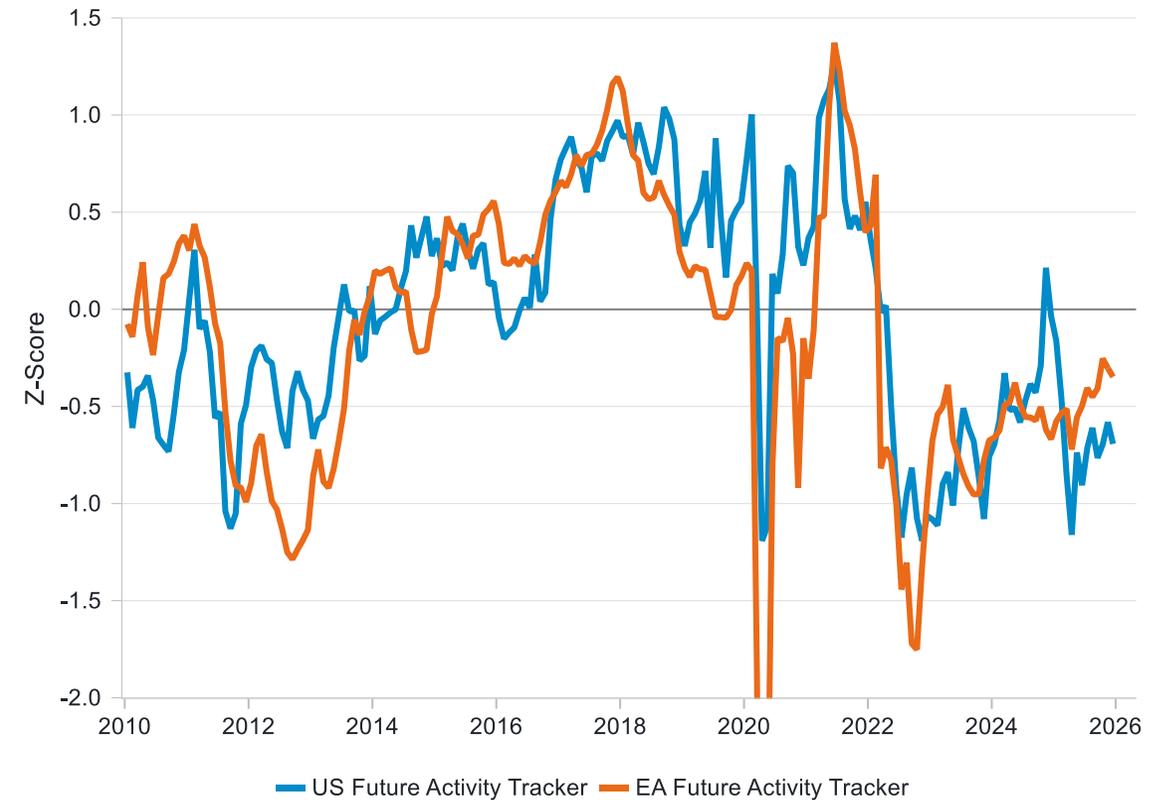
Our activity trackers deteriorated towards the end of last year

Softening demand and consumer concerns around inflation and employment, though future sentiment appears more constructive.

Current activity trackers: US and euro area



Future activity trackers: US and euro area



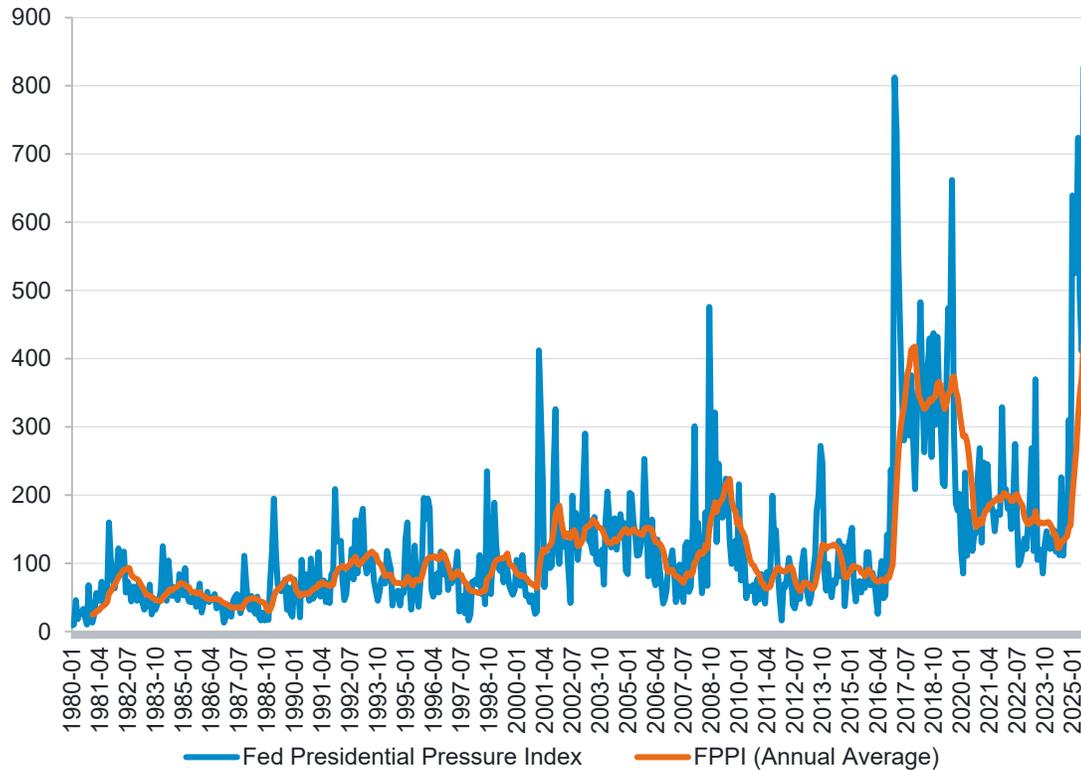
Source: Fidelity International, FIL Global Macro Team calculations, Macrobond, January 2026.

Source: Fidelity International, FIL Global Macro Team calculations, Macrobond, January 2026.

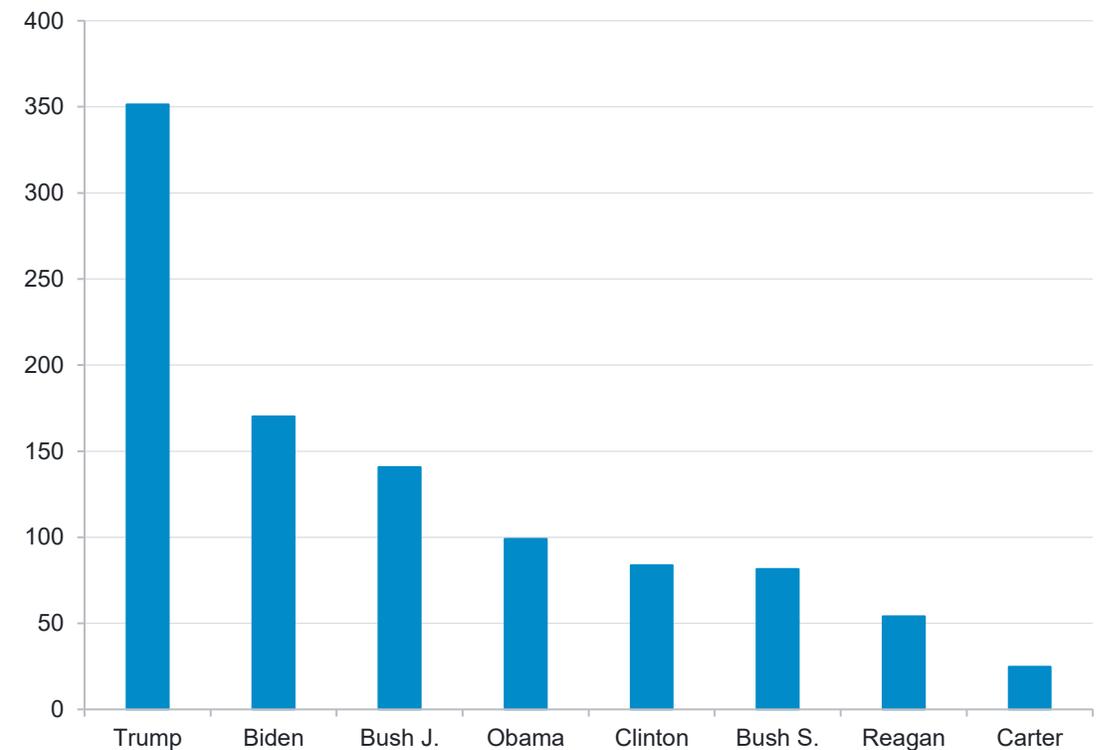
Presidential pressure on the Fed has grown in recent years

Higher pressure on the Fed is associated with “benefit free inflation” - stimulus without the growth upside

Fed Presidential Pressure ramped up in both of Trump’s terms



With the monthly average of the index much higher under Trump

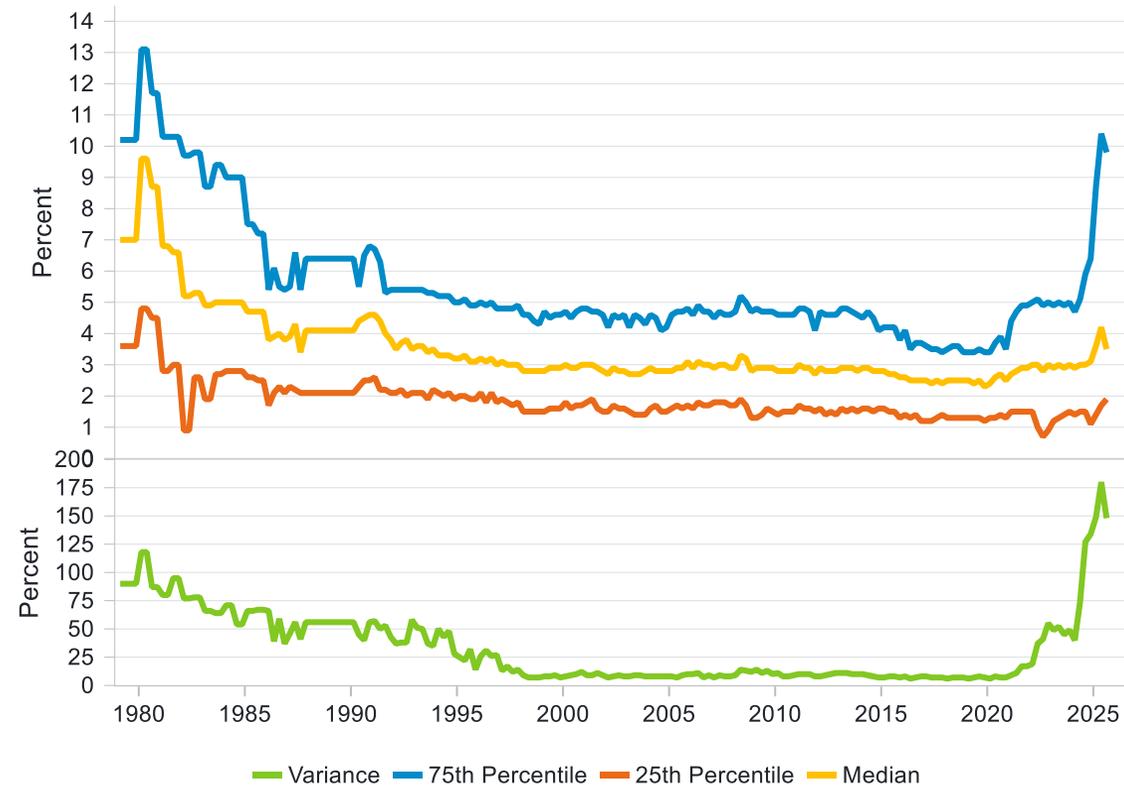


Source: Fidelity International, [Bonaparte \(2025\)](#), January 2026

The moments of the distribution of consumer expectations contain high info value

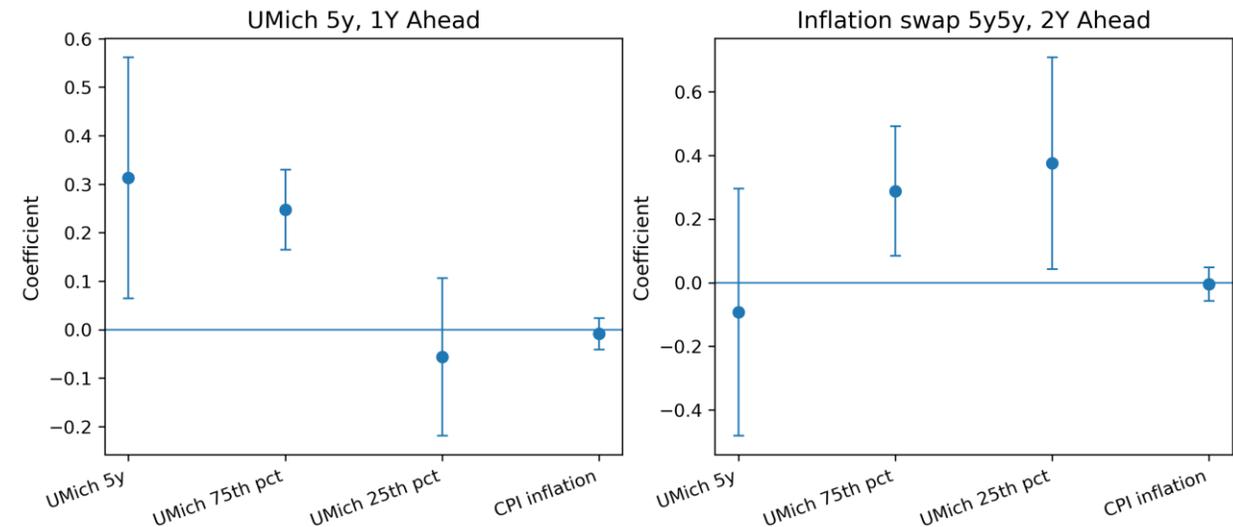
Drift in moments of the household distribution indicative of higher uncertainty and hence credibility

Much higher variance is driven by a rightward shift in the inflation distribution for households



Source: Fidelity International, Macrobond, University of Michigan, January 2026.

The percentiles contain strong information regarding both future consumer and market expectations



Source: Fidelity International, Macrobond, Bloomberg, January 2026

Notes: Results of a simple regression of one year ahead US CPI inflation on contemporaneous CPI and household inflation expectations, standard errors are heteroskedasticity robust.

Indicators underlying our PCAs and Labour Market Tightness Indicator

Updated on a monthly basis

USA PCA Framework – Indicators used

US Current activity tracker

PMI Manufacturing - Production
 PMI Manufacturing – Employment
 NAHB Single Family Home Sales
 Philly Fed Manufacturing Business Activity
 Richmond Fed Manufacturing – Capacity Utilisation
 PMI Non-Manufacturing - Business Activity
 PMI Non-Manufacturing – Employment
 Richmond Fed Service Sector - Revenue
 Richmond Fed Service Sector – No of Employees (3mma)
 UMich Consumer Sentiment Current Conditions
 Conference Board Consumer Confidence Present Situation
 Mortgage Purchase Applications

US Future activity tracker

PMI Manufacturing - New Orders
 NAHB Single Family Home Sales - In 6 months
 Philly Fed Manufacturing - Future Business Activity
 Empire State Manufacturing – New orders
 Richmond Fed Manufacturing – Capacity Utilisation in 6 months (3mma)
 PMI Services - New Orders
 PMI Services - New Export Orders
 Richmond Fed Service Sector Demand – 6 months ahead (3mma)
 UMich Consumer Sentiment Expectations
 Conf. Board Consumer Confidence Expectations
 Conf. Board Expectations of Buying New Home in 6M
 Richmond Fed Manufacturing wages in 6 months (3mma)

Source: Fidelity International, 2025.

Eurozone PCA Framework – Indicators used

EA Current activity tracker

German Ifo Business Climate: Manufacturing
 EC Industrial Confidence
 EC Construction Confidence
 PMI Manufacturing - Quantity of Purchase
 PMI Manufacturing - Production
 EC Service Confidence
 PMI services
 German Ifo - Business Climate: Services
 German Ifo - Passenger car demand
 EC Consumer Confidence
 ZEW Economic Sentiment
 EC Retail
 EC Employment Expectation

EA Future activity tracker

German Ifo 6 Months ahead
 EC Industrial Production expectations
 PMI manufacturing New orders
 PMI manufacturing New Export orders
 PMI Construction New orders
 EC Services expected demand over next 3 months
 EC Retail trade expected business situation
 PMI services New business
 EC Consumption fin situation next 12 months
 EC Consumption eco situation next 12 months
 Sentix Future

Fidelity Labour Market Tightness Indicator

Dates in brackets show when indicator starts being used

NAIRU minus UR (31/3/1949)
 Jobs minus workers (where JOLTS have been extrapolated prior to December 2000 using a composite Help Wanted Index) (31/1/1951)
 Employment NFIB firms with positions not able to fill right now (31/10/1973)
 NFIB single most important problem: percent reporting quality of labour (31/10/1973)
 NFIB Businesses with few or no qualified applicants for job openings (30/04/1993)
 JOLTS quits rate / hires rate (31/12/2000)
 Full employment normal guesstimate minus part time work for economic reasons % employment (31/7/1955)
 Conference board jobs plentiful minus jobs hard to get (31/1/1967)
 Atlanta FED wage growth tracker: job switcher minus job stayer (31/3/1997)

Fidelity's proprietary China Activity Indicator (CH-AI)

China Activity Indicator subcomponents

Sector	Indicator List	Weights
Industry	Major Ports Volumes	9.0%
	Caixin manufacturing PMI: Output	7.3%
	Manufacturing PMI: Production	7.3%
	Manufacturing PMI: Employment	6.5%
	Industrial Production	10.3%
	Total Industry	40.4%
Services	Caixin services PMI: Employees	6.5%
	Caixin services PMI: Business Activity	7.5%
	Auto sales	10.2%
	Domestic flight	8.5%
	Total Services	32.6%
Property	Residential property sales	9.7%
	Construction Starts	8.8%
	Cement Production	8.5%
	Total Property	27.0%

Source: Fidelity International, FIL Global Macro Team calculations, 2025.

Global Macro & SAA team

Powering asset allocation across Fidelity's investment teams

Our team

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Global Head of Macro & SAA

Max Stainton
Senior Global Macro Strategist

Peiqian Liu
Asia Economist

Ashray Ohri
Macro Strategist

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Weiyue Kou
Associate CMA and SAA Strategist

Our role

- Part of Fidelity Solutions & Multi Asset, working across Fidelity's investment teams to feed into asset allocation decision making
- Leading research into macroeconomic and market dynamics, supporting asset allocation decisions and establishing core investment views

Evolving Fidelity's capabilities

- Building out Fidelity's capabilities in macroeconomic research
- Creating and maintaining Fidelity's capital market assumptions (CMAs)

Source: Fidelity International, 2026.

Important information

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