

# Seeking uncorrelated alpha in a correlated world

For wholesale and institutional investors only

Fidelity INTERNATIONAL

# Seeking uncorrelated alpha in a correlated world



**Matt Jones**
Portfolio Manager
Fidelity Research Global Equities Fund



**Lukasz de Pourbaix**
Head of Strategic
Sales and Solutions

Global equity portfolios may be less diversified than they appear. Years of strong momentum and increasingly concentrated benchmarks mean passive, quantitative, growth and quality strategies can share more of the same return drivers than investors realise. Rather than trying to predict when market leadership will change, investors can look more closely at where their returns are coming from. Explicit controls over stock, sector, country and style exposures are key, and can potentially help to keep fundamental stock selection – rather than unintended factor bets – at the heart of returns.

## At a glance

A global equity portfolio can hold hundreds of stocks and several different managers and still be less diversified than it looks.

That is becoming increasingly relevant after several years in which the same market forces have rewarded a wide range of investment approaches. Momentum has been particularly strong, but exposure to it is no longer confined to dedicated 'momentum' strategies. It can now be found across quantitative, growth and quality portfolios, as well as in passive allocations that have become increasingly concentrated in the world's largest companies.

For investors, the question is not whether momentum is about to stop working. There is no reason it cannot continue to perform. The more useful question is: how much of a portfolio now depends, directly or indirectly, on the same trends continuing?

The **Fidelity Research Global Equities Fund (FRGE)** takes a different approach. It draws on the firm's proprietary fundamental research to identify stock opportunities, then uses systematic portfolio construction with a portfolio manager overlay and oversight to turn those views into a diversified global portfolio. Risk controls are used to manage unintended exposure to individual companies, sectors, countries and investment styles.

The aim? For stock selection to drive excess returns, rather than a persistent exposure to momentum or another investment factor.

For investors reviewing their global equity portfolios, four points are worth considering.

| | |
|---|---|
| 1 | **More managers do not automatically mean more diversification.** If returns are driven by similar factors, different strategies can behave alike when markets turn. |
| 2 | **Momentum now reaches well beyond dedicated 'momentum' strategies.** Strong trends and market concentration have embedded similar exposures across passive, quantitative, growth and quality portfolios. |
| 3 | **Recent conditions may be difficult to repeat indefinitely.** Concentration is already high, earnings comparisons are becoming more demanding and crowded positioning can make changes in market leadership more abrupt. |
| 4 | **Diversifying the source of alpha can matter as much as diversifying holdings.** Investors should seek to achieve this by combining fundamental research with systematic implementation and disciplined risk controls. |

## The diversification investors may be missing

Most portfolios look diversified when viewed from the top down. There may be a large passive core, a couple of systematic managers and one or two traditional active strategies. Each has a different label and investment process. The underlying holdings may also be spread across hundreds of companies.

Look more closely, though, and the differences can start to narrow.

Several managers may favour companies with positive earnings revisions, strong profitability, good growth prospects and rising share prices. The passive portfolio may also have become increasingly exposed to those companies simply because their market values have grown.

So while the portfolio contains several strategies, the same forces may be doing much of the heavy lifting.

This matters because diversification is ultimately about how different parts of a portfolio behave when market conditions change. Holding three managers that draw on similar sources of return may reduce manager-specific risk. It does much less to reduce the risk of those return sources falling out of favour at the same time.

That is an important part of the thinking behind FRGE. Rather than starting with conventional factor signals, the strategy starts with Fidelity's fundamental company research. Those views are then implemented systematically across a broad portfolio, with controls intended to prevent any single factor or market exposure from becoming too influential.

It provides another way of thinking about diversification: not simply adding more holdings, but adding a different source of investment insight.

## How momentum spread across portfolios

Momentum is a useful example of how common exposures can build without investors necessarily setting out to create them.

It has been a powerful source of global equity returns in recent years. Table 1 compares the returns of the S&P 500 Momentum Index against the S&P 500 index in USD.

**Table 1.** Returns of the S&P 500 Momentum Index vs. the S&P 500 index (USD)

| Period (annualised) | Momentum index | S&P 500 | Difference p.a. |
|---|---|---|---|
| **5 years** | 23.8% | 13.4% | +10.4% |
| **10 years** | 21.6% | 15.5% | +6.1% |
| **20 years** | 14.1% | 11.4% | +2.7% |

Source: S&P Dow Jones Indices. Total return in USD to 30 June 2026. Past performance does not guarantee future results. Totals may not sum up due to rounding differences.

Having a tilt to momentum within the S&P 500 has generated substantial outperformance while adding about six percentage points a year over ten years and about ten percentage points a year over five years.

There have been sound reasons for that performance. The investment boom around artificial intelligence produced an unusually persistent group of earnings winners. A relatively small number of companies repeatedly beat expectations and continued to attract capital as investors revised their assumptions about future growth.

At the same time, those companies became much larger parts of global equity benchmarks. By mid-2025, for example, the Magnificent Seven accounted for around 22% of the MSCI World Index, while the ten largest companies in the S&P 500 approached 40% of that benchmark.[1,2]

That creates an interesting dynamic. When companies with strong share-price momentum are also the largest constituents of capitalisation-weighted indices, passive investors naturally increase their exposure to them. There is no active momentum decision involved. It happens through the construction of the index.

The same companies can also appear prominently in growth and quality strategies, while systematic managers may favour them because of positive price trends or earnings revisions.

None of these approaches is necessarily wrong. The issue is the overlap.

Traditional market-cap benchmarks naturally increase allocations to recent winners as their market capitalisations rise, creating an embedded momentum tilt within passive investing. At the same time, most quantitative equity strategies explicitly incorporate momentum signals due to the extensive academic and empirical evidence supporting the factor.

As a result, many investors who believe they are diversified across passive and quantitative strategies may, in reality, hold significant common exposure to momentum. This concentration risk became particularly evident during periods when a narrow group of high-performing growth stocks increasingly dominated both benchmark indices and quantitative portfolios simultaneously.

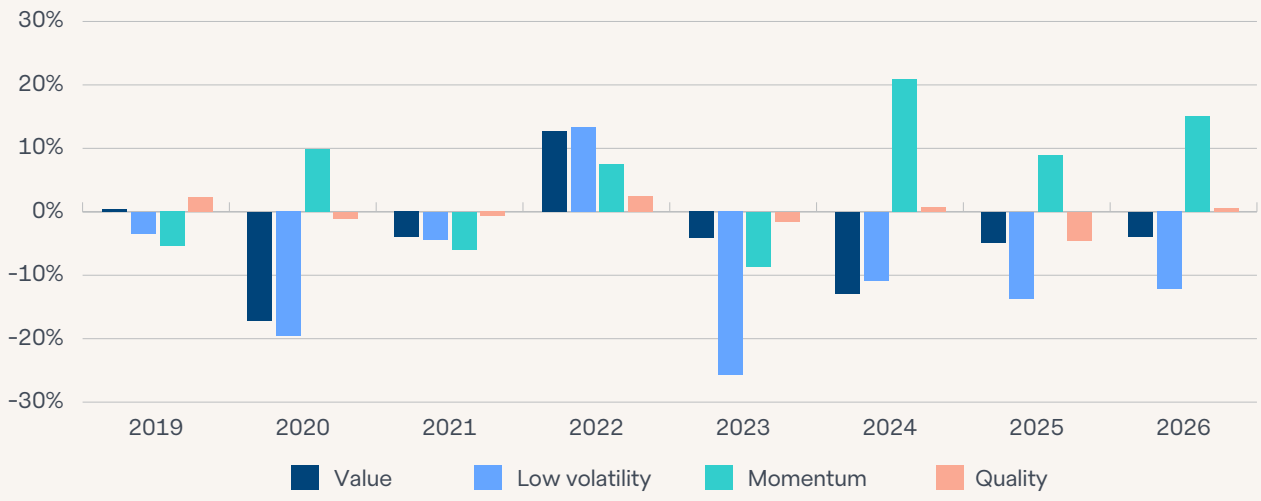
The irony is that the strategies offering the greatest diversification can often be the hardest ones to keep.

After several years of disappointing performance, allocations are cut. After several years of strong performance, they are increased. Gradually, a diversified portfolio can become more concentrated around the factors that have worked best.

**Table 2.** Core factor performance by calendar year (2019 – present)

| Total return (%) | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2026 |
|---|---|---|---|---|---|---|---|---|
| Value | 31.93 | 1.36 | 24.90 | -5.22 | 22.23 | 12.29 | 13.19 | 9.01 |
| Low volatility | 28.26 | -1.11 | 24.42 | -4.59 | 0.72 | 14.26 | 4.36 | 0.55 |
| Momentum | 26.25 | 28.32 | 22.79 | -10.51 | 17.78 | 46.01 | 26.86 | 27.84 |
| Quality | 33.91 | 17.55 | 28.16 | -15.62 | 24.97 | 25.02 | 17.88 | 13.11 |
| S&P 500 | 31.49 | 18.40 | 28.71 | -18.11 | 26.29 | 25.02 | 17.88 | 12.75 |

**Figure 1.** Performance relative to benchmark




Source: S&P Dow Jones Indices LLC and/or its affiliates. Date as of 30 September 2026. Returns in US dollars. For use with institutional only; not for use with retail investors. Past performance is not a reliable indicator of future performance.

## Could the next few years look different?

Momentum may continue to work. Its long-term record gives investors plenty of reason to take it seriously. However, we know that momentum is cyclical in nature and there will be periods when momentum turns negative.

It is also worth asking whether some of the conditions behind its recent strength will be as supportive from here.

Market concentration is already high. A large amount of capital is tied to a relatively small group of companies, which means a broadening of market leadership could have a meaningful effect even without a major equity sell-off.

Expectations are also higher. Companies that have consistently delivered exceptional growth eventually face tougher comparisons. They do not necessarily need to report poor results to disappoint investors. Sometimes very good results are not enough when expectations have moved even faster.

Crowded positioning adds another consideration. Markets saw several periods of sharp systematic deleveraging during 2025 and early 2026 as established factor relationships temporarily reversed.[3,4] These episodes were relatively short-lived, but they showed how quickly portfolios can move together when many investors are positioned in similar ways.

Momentum itself has experienced this before. The MSCI World Momentum Index materially lagged the broader market during changes in leadership in 2021 and again in 2023.[5]

Trying to predict the next turning point is unlikely to be productive. Portfolio construction should not depend on getting that call right.

A better question is: does a portfolio have enough independent sources of return if today's winners are no longer tomorrow's winners?

## Turning Fidelity's research into a portfolio

This is where FRGE differs from many systematic global equity strategies. The starting point is Fidelity's fundamental research platform.

More than 190 equity research professionals cover companies representing roughly 80% of global market capitalisation. Fidelity also has more than two decades of experience using fundamental research insights within systematically constructed portfolios.[6]

The Australian vehicle adopted its current investment strategy on 1 December 2025. It's worth noting, performance before that date relates to the previous Fidelity Global Demographics Fund strategy rather than the current FRGE investment approach.[6]

**Figure 2.** A unique proprietary research platform combining depth and breadth



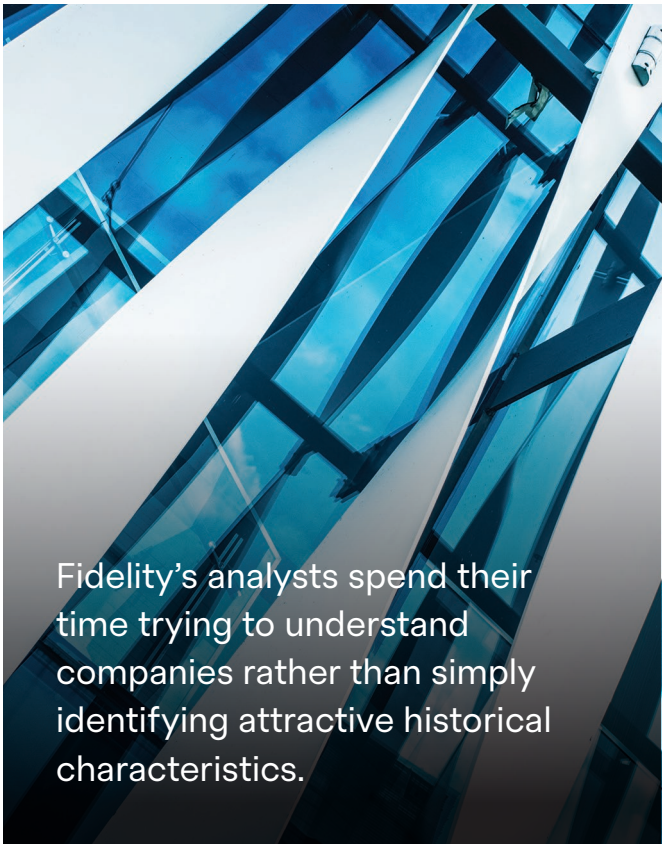

Source: Fidelity International, 30 September 2026. Data is unaudited. Regional totals represent number of research professionals in each office location (excludes DoRs) but not necessarily their regional team, i.e. coverage may span developed markets or emerging markets.

What matters most, however, is how the process works. Fidelity's analysts spend their time trying to understand companies rather than simply identifying attractive historical characteristics. Their research considers areas such as management quality, competitive position, pricing power, balance-sheet strength, industry conditions and capital allocation.

Much of this is inherently forward-looking. An analyst might believe the market is underestimating an improvement in a company's competitive position. Another business may look attractive on historical financial measures, but detailed research may point to deteriorating fundamentals that are not yet obvious in the reported numbers.

Those judgements feed into Fidelity's proprietary analyst ratings. That gives FRGE a different starting point from many quantitative strategies. Instead of relying mainly on price, valuation or accounting signals that are widely available to the market, the strategy draws on the views generated by Fidelity's own research team.

There is some independent support for the idea that this information can behave differently from traditional factors. MSCI research has found analyst sentiment signals to be differentiated and relatively lowly correlated with factors including value, quality and momentum.




For FRGE, however, the research is only half of the process.

The next job is turning a large number of individual analyst views into a portfolio that can be managed consistently.

## Fundamental research, systematic implementation

FRGE uses systematic portfolio construction to translate analyst conviction into stock positions across a broad global universe. Importantly, the portfolio construction process also incorporates human judgment whereby the portfolio managers for the strategy can cross check what the systematic process is telling them with the underlying analyst covering the relevant stock or sector.

This allows the strategy to make use of research from across Fidelity rather than relying on a small number of high-conviction positions selected by one portfolio manager.

There is also an important risk-management benefit. The portfolio construction process controls exposures at a number of levels, including individual stocks, sectors, countries and regions. It also monitors investment-style exposures so that an unintended bias towards momentum, value, growth, quality or another style does not gradually become the main driver of portfolio returns.

Momentum is a good example of how this works in practice. FRGE does not automatically avoid a company because its share price has risen strongly. If Fidelity's analysts remain positive on the company and the research supports the investment case, the Fund can own it.

What matters is *why* the stock is there. The strategy is not buying it simply because it has positive momentum. Equally, it does not have to sell a strong company merely to maintain an anti-momentum position.

That distinction is important. FRGE is not intended to make a large call on which investment style comes next. The process is designed to keep the emphasis on individual company research while controlling the unintended style exposures that can accumulate around those decisions.

It is also why describing FRGE simply as a quantitative strategy misses an important part of the process. The portfolio construction is systematic – the underlying investment views are not generated by a formula; they come from fundamental research.

## Where can the Fidelity Research Global Equities Fund fit?

For wholesale investors, the practical question is: what can FRGE add to an existing equity allocation? The answer will depend on what is already in the portfolio.

For investors with a substantial passive global equity allocation, FRGE can introduce a source of active stock selection while retaining a diversified and benchmark-aware portfolio structure. This may be particularly relevant when cap-weighted benchmarks themselves have become unusually concentrated.

Alongside systematic managers, the difference lies in the source of the alpha signal. The underlying stock views come from Fidelity's proprietary analyst research rather than primarily from conventional factor data.

FRGE can also sit alongside traditional fundamental managers. A concentrated active portfolio may depend heavily on a relatively small number of stock calls or on the judgement of one portfolio manager or team. FRGE seeks to spread the contribution from fundamental research across a much broader set of companies.

For a multi-manager portfolio, this brings the discussion back to the original diversification question.

It is easy to count managers. It is harder – and more useful – to understand what is actually driving their returns. If several apparently different allocations are benefiting from the same factors, adding another manager with similar exposures is unlikely to change the portfolio very much. Adding a different source of alpha might.

## Looking beyond the labels

Momentum has been an important part of the global equity story of recent years, and for good reason. Strong companies have delivered strong earnings, their share prices have risen and their weight in global benchmarks has increased.

There is no reason to assume that suddenly stops. But the longer a trend lasts, the more widely it tends to find its way into portfolios. What began as a successful group of stocks can become a factor exposure, a systematic trade and, eventually, a significant part of the benchmark itself.

That makes it worth looking beneath the labels attached to individual strategies.

FRGE is designed to bring a different input into the portfolio: Fidelity's company-level fundamental research. Systematic portfolio construction then seeks to capture those insights broadly while managing unwanted concentrations across stocks, markets and investment styles.

The Fund can own companies with momentum. It can own growth companies, quality businesses and value opportunities. But the intention is not for any one of those styles to dictate the outcome. The investment case starts with the research.

For investors reviewing their global equity allocations after several years of unusually concentrated market leadership, that may be the more useful way to think about diversification. Not simply, how many different things do I own? Rather, how many genuinely different sources of return do I own?



## References


1. Goldman Sachs data, 'The rise of the Magnificent 7: concentration risk versus earnings power', September 2025.
2. *Nationwide Financial,* ' "Magnificent Seven" concentration creeps into global equity markets", July 2025; additional market data cited in original paper.
3. MSCI Research, 'Unraveling Summer 2025's Quant Fund Wobble', October 2025.
4. Hedgeweek, 'Quant hedge funds see worst drawdown since October as crowded trades unwind', January 2026.
5. MSCI World Momentum Index (USD) factsheet, gross returns, May 2026. Calendar-year returns 2021–2025.
6. Fidelity Australia, Fidelity Research Global Equities Fund information, 2026. Benchmark: MSCI All Country World Index NR. The Fund adopted its current investment strategy on 1 December 2025; performance before that date reflects the previous Fidelity Global Demographics Fund strategy.


## Important information

All information is current as at October 2026 unless otherwise stated. This document is issued by FIL Responsible Entity (Australia) Limited ABN 33 148 059 009, AFSL No. 409340 ('Fidelity Australia').

Fidelity Australia is a member of the FIL Limited group of companies commonly known as Fidelity International. Prior to making any investment decision, investors should consider seeking independent legal, taxation, financial or other relevant professional advice. This document is intended as general information only and has been prepared without taking into account any person's objectives, financial situation or needs. You should also consider the relevant Product Disclosure Statements ('PDS') for any Fidelity Australia product mentioned in this document before making any decision about whether to acquire the product. The PDS can be obtained by contacting Fidelity Australia on 1800 044 922 or by downloading it from our website at www.fidelity.com.au. The relevant Target Market Determination (TMD) is available via www.fidelity.com.au.

This document may include general commentary on market activity, sector trends or other broad-based economic or political conditions that should not be taken as investment advice. Information stated about specific securities may change. Any reference to specific securities should not be taken as a recommendation to buy, sell or hold these securities. You should consider these matters and seeking professional advice before acting on any information. Any forward-looking statements, opinions, projections and estimates in this document may be based on market conditions, beliefs, expectations, assumptions, interpretations, circumstances and contingencies which can change without notice, and may not be correct. Any forward-looking statements are provided as a general guide only and there can be no assurance that actual results or outcomes will not be unfavourable, worse than or materially different to those indicated by these forward-looking statements. Any graphs, examples or case studies included are for illustrative purposes only and may be specific to the context and circumstances and based on specific factual and other assumptions. They are not and do not represent forecasts or guides regarding future returns or any other future matters and are not intended to be considered in a broader context. While the information contained in this document has been prepared with reasonable care, to the maximum extent permitted by law, no responsibility or liability is accepted for any errors or omissions or misstatements however caused. Past performance information provided in this document is not a reliable indicator of future performance. The document may not be reproduced, transmitted or otherwise made available without the prior written permission of Fidelity Australia. The issuer of Fidelity's managed investment schemes is Fidelity Australia.

© 2026 FIL Responsible Entity (Australia) Limited. Fidelity, Fidelity International and the Fidelity International logo and F symbol are trademarks of FIL Limited.

Fidelity INTERNATIONAL