Goldilocks or Bears ahead for global markets?

Financial markets in an age of extraordinary events

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Cross-Asset Investment Specialist

May 21

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- Based in: Sydney, Australia
- Years of Investment Experience: 18
- Education: MBA, University of London
- MEconSt, University of New England
- BCom, Macquarie University

- 18 years experience in global financial markets
- Assists and advises Fidelity's clients on investment strategies, macroeconomic themes and asset allocation
- Covers the Australian and New Zealand economies on behalf of the Global Macro and Strategic Asset Allocation team
- Covers Australian capital markets on behalf of the Fidelity Multi-Asset team
- A regular speaker and market commentator in the media
- Previously worked at Macquarie Bank (Sydney, AU), Pioneer Investments (Dublin, IE) and M&G Investments (London, UK)

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Goldilocks

Record low interest rates and easy monetary policy

Vaccine roll-out

Rebounding global economy

Highly stimulatory fiscal policy

Large increase in household savings

The hunt for yield

"WHO HAS BEEN TASTING MY SOUP?"

Bears

Central bank credibility and policy mistakes

Vaccination timeline delays

Virus mutations

US / China decoupling

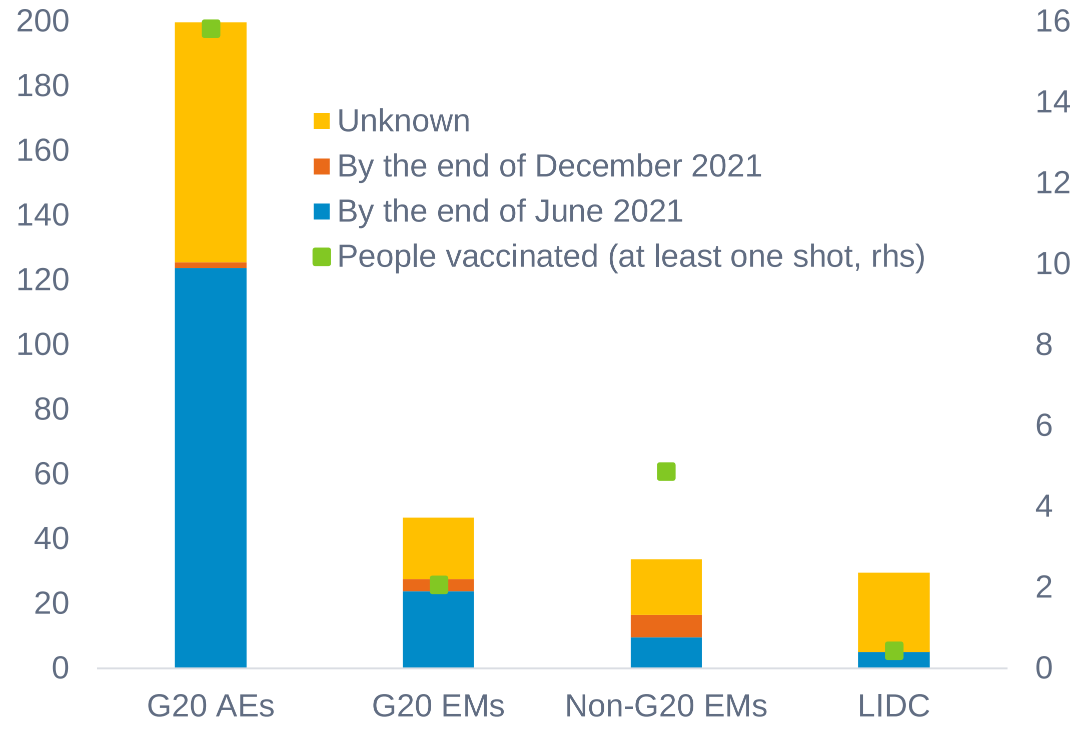
Economic scarring

Valuations/Leverage/Investor behavior in some markets

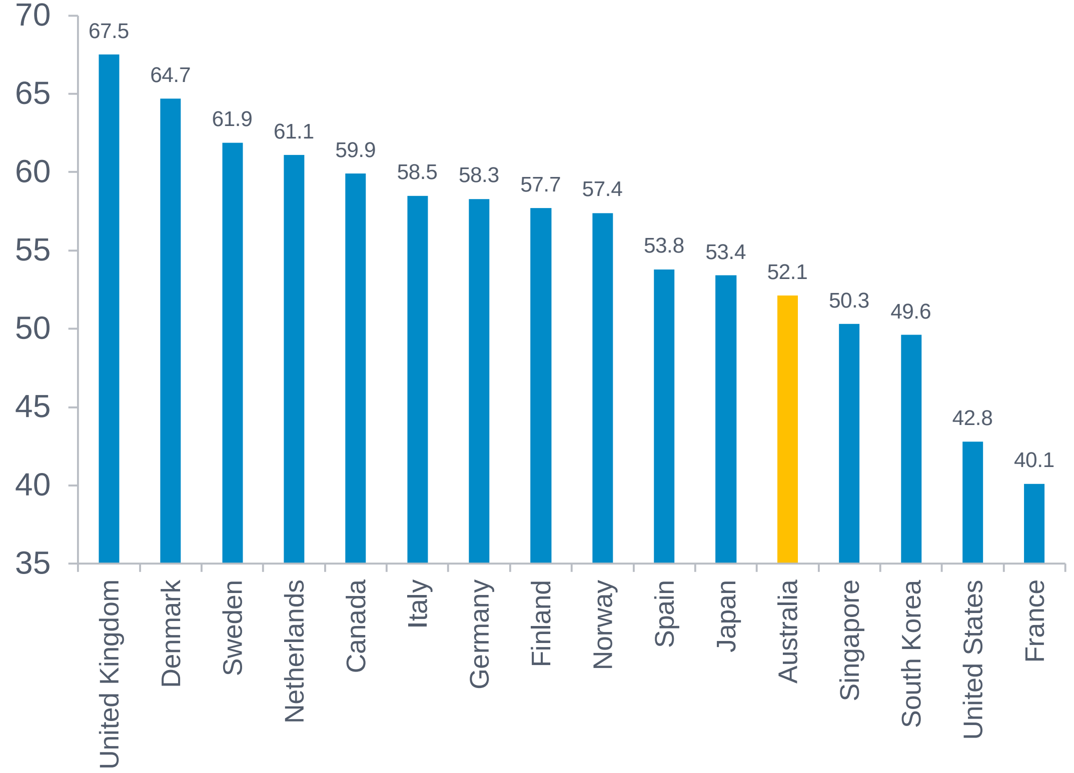
No one is safe until everyone is safe

High vaccine procurement in developed markets, but mixed willingness to get it

Confirmed vaccine procurement (% of population)



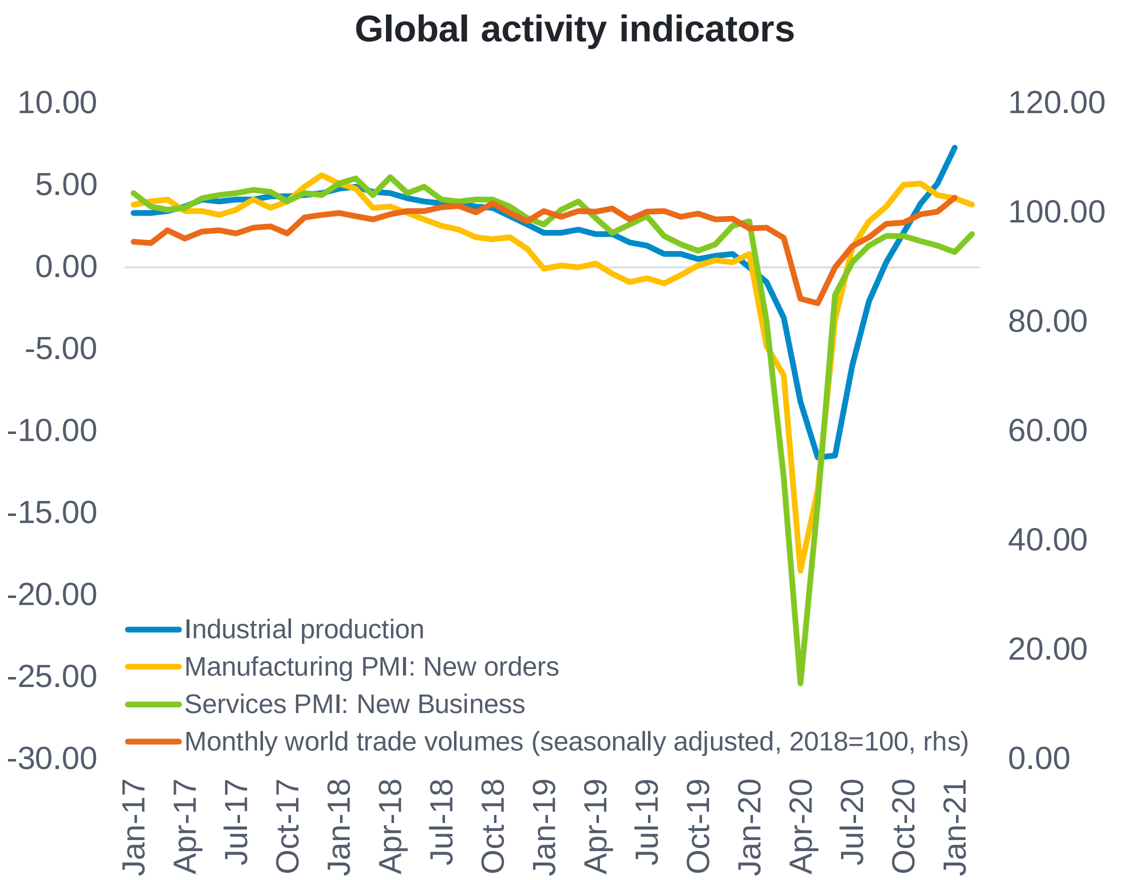
Share of people who would get a COVID-19 vaccine if it was available to them this week

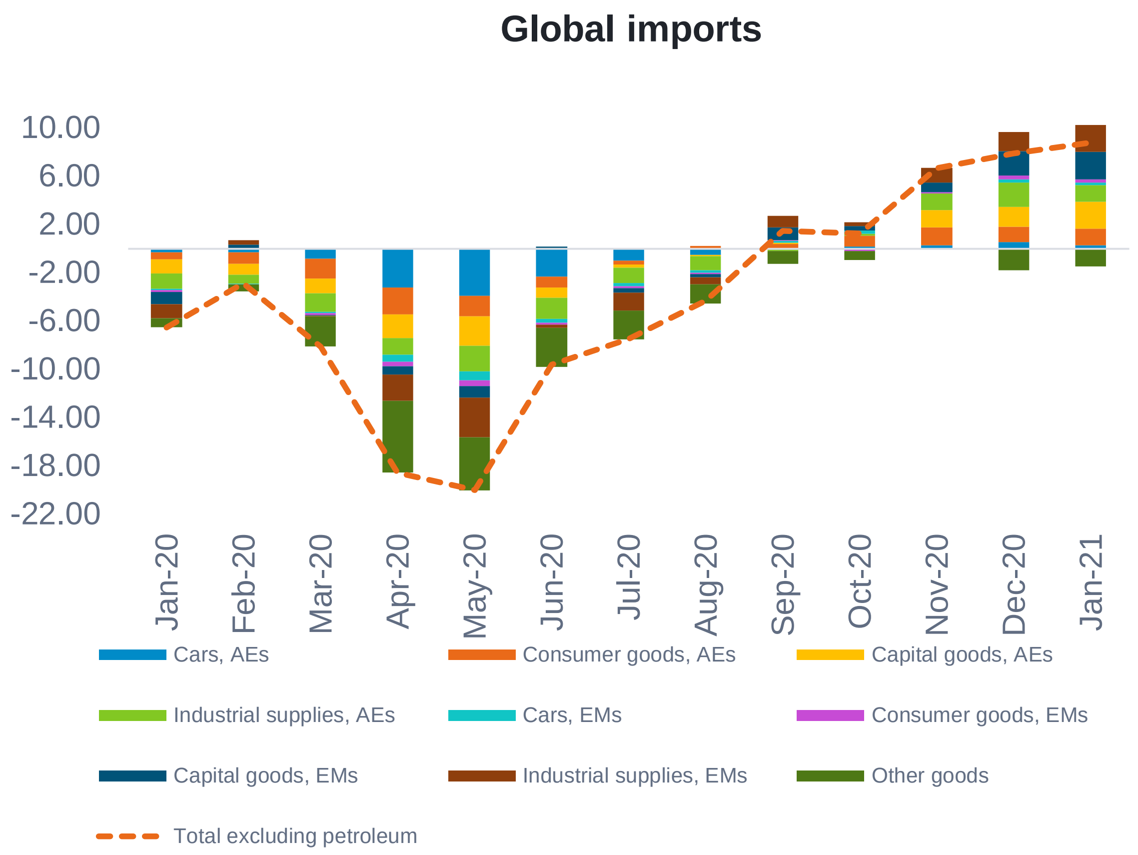


Source: Fidelity International, International Monetary Fund, Duke Global Health Innovation Center, April 2021. LIDC = lower income developing countries.

The global V-shaped recovery

Strong rebound as the global economy resumes trade

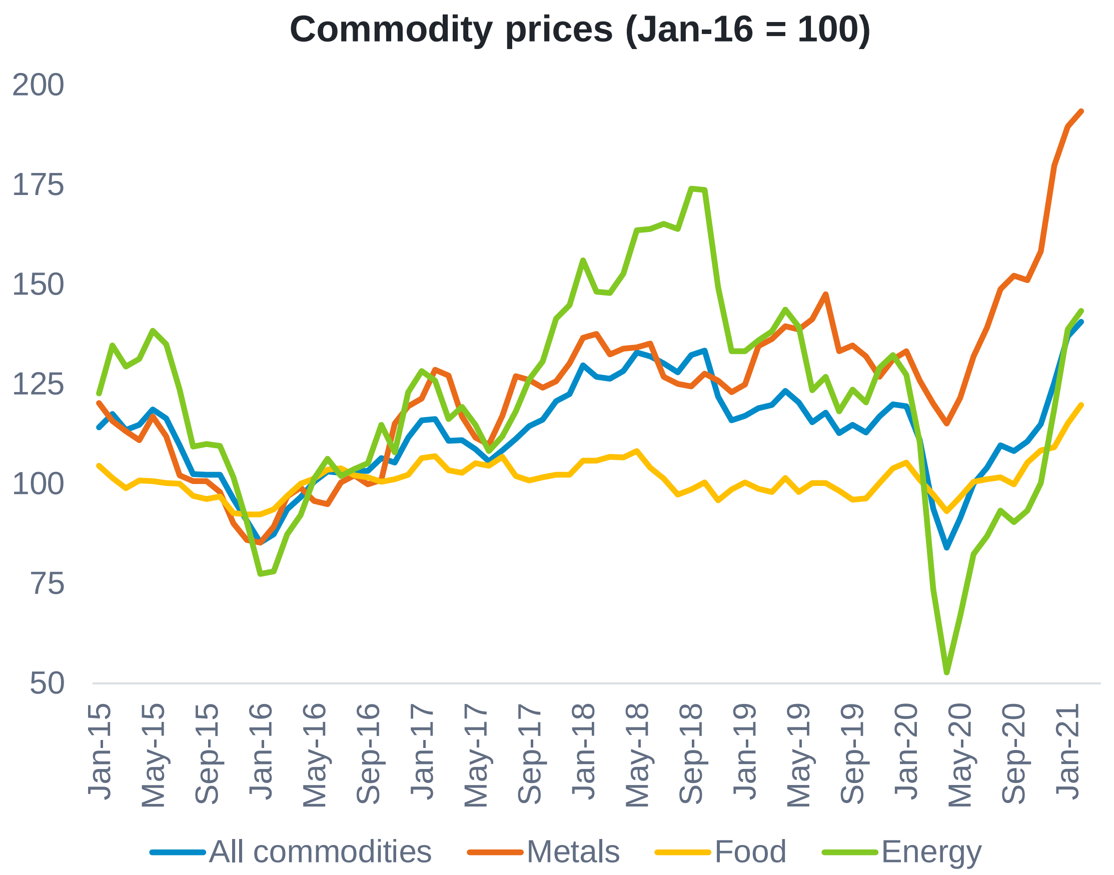


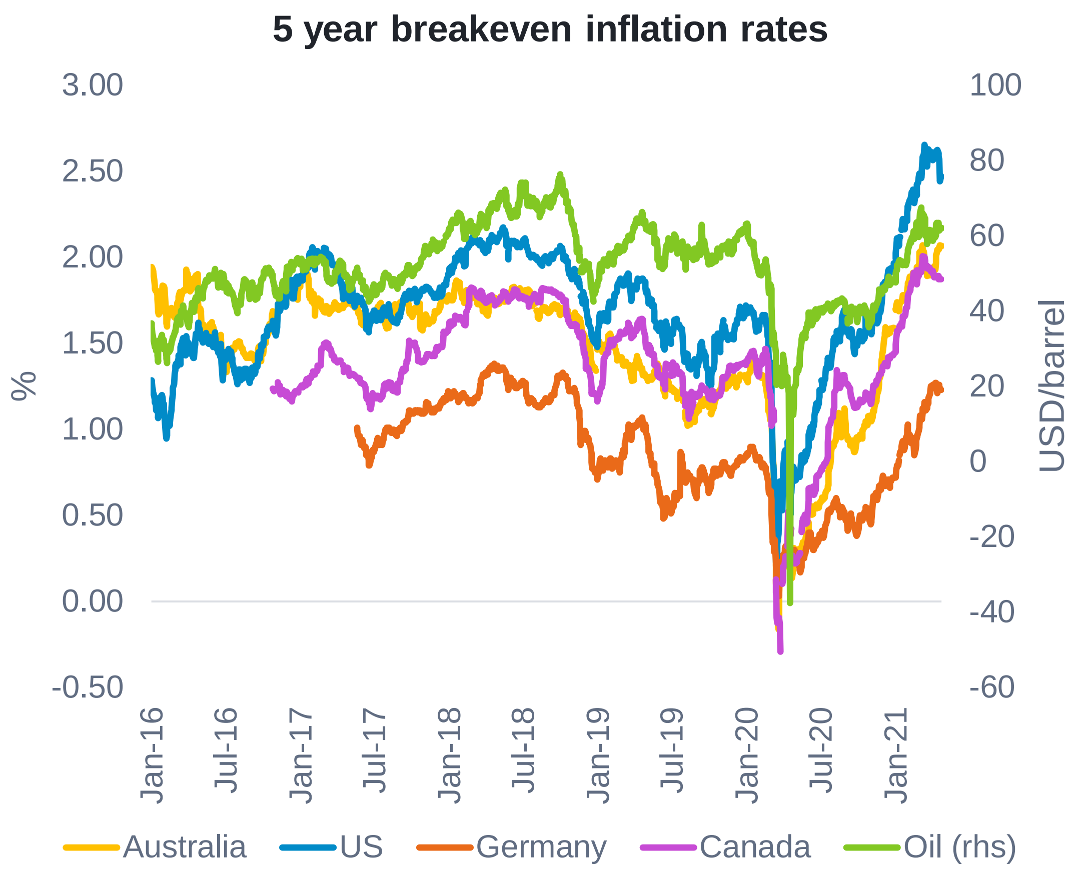


Source: Fidelity International, International Monetary Fund, April 2021. Global activity: three-month moving average, annualised percent change; deviations from 50 for PMI. Global imports: Contribution to year-over-year percent change, percentage points; based on value in US dollars.

Commodity prices have risen significantly

Resulting in higher inflation expectations





Source: Fidelity International, IMF, Bloomberg, April 2021

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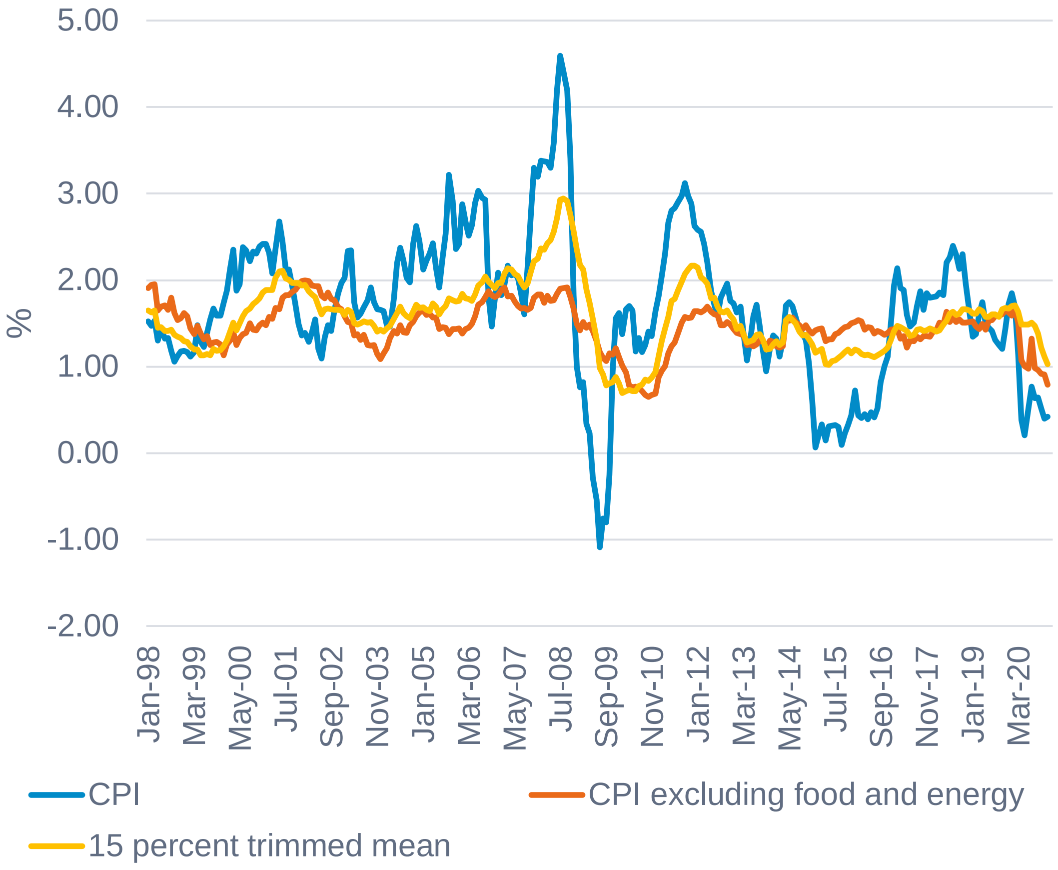
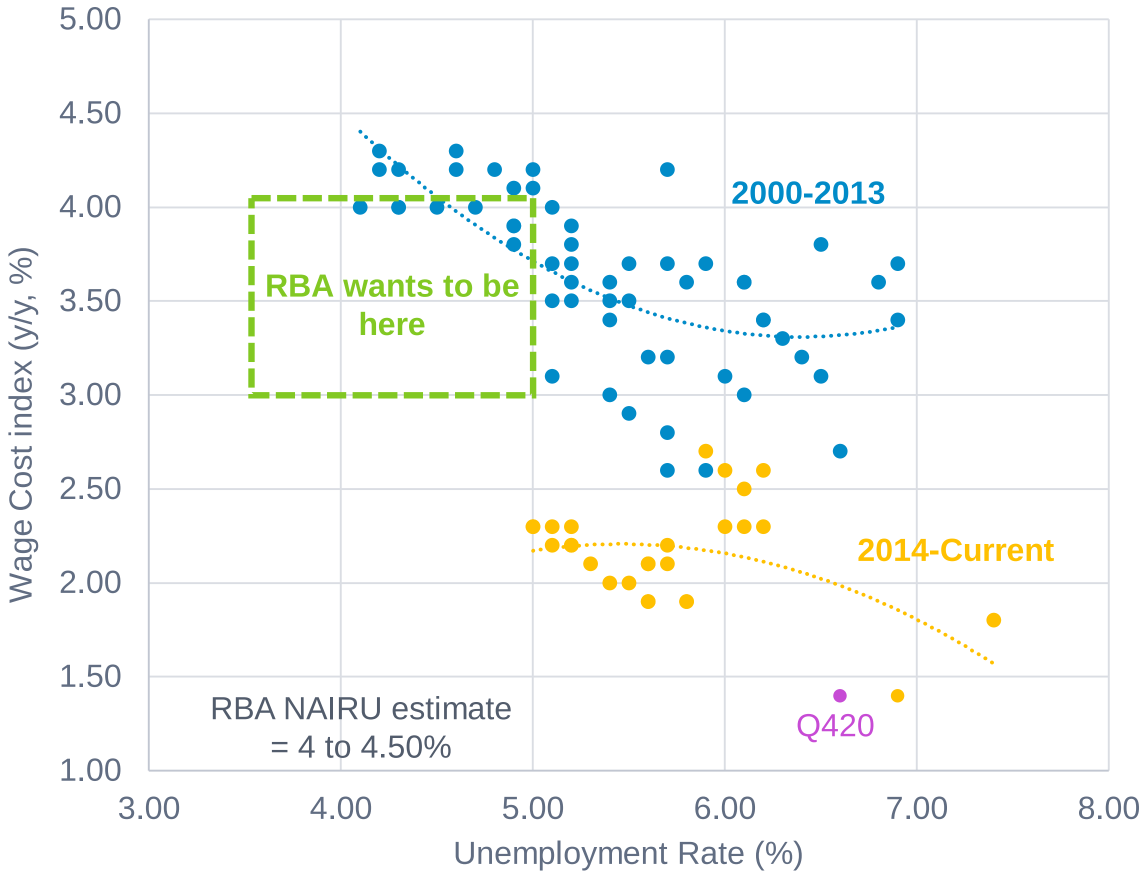
Beware of the reflationistas

There remains excess slack across the globe

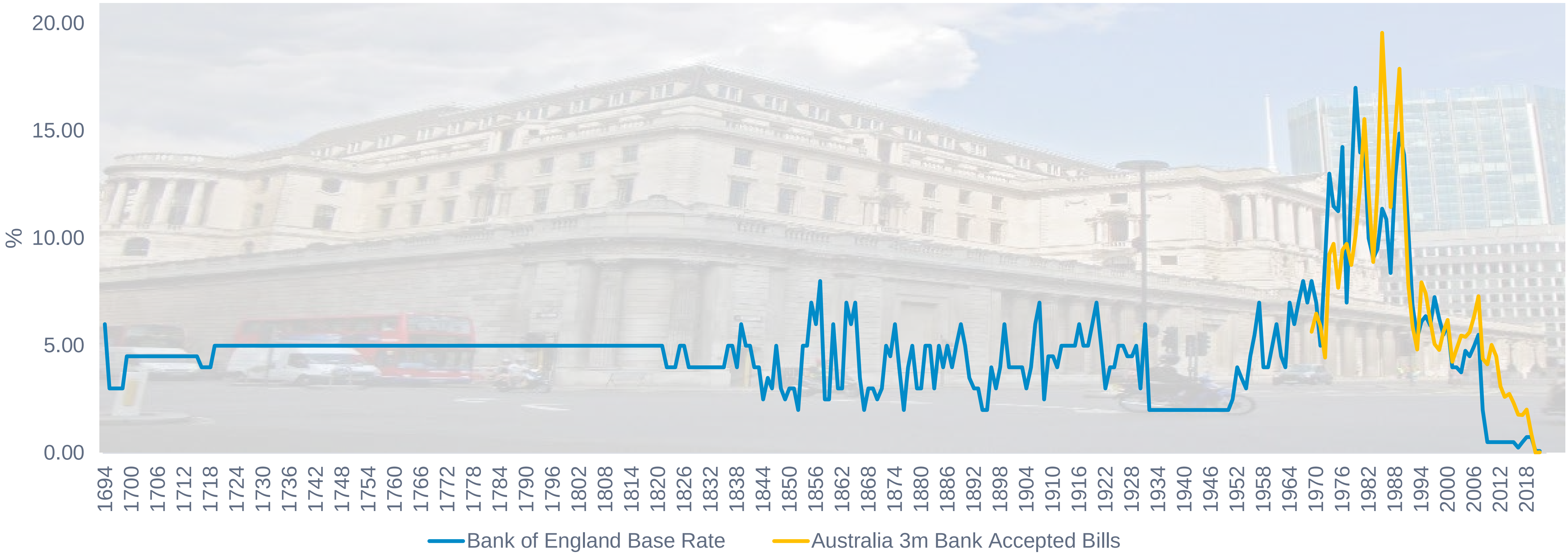




Source: Fidelity International, IMF, Australian Bureau of Statistics, April 2021

The lowest interest rates in history

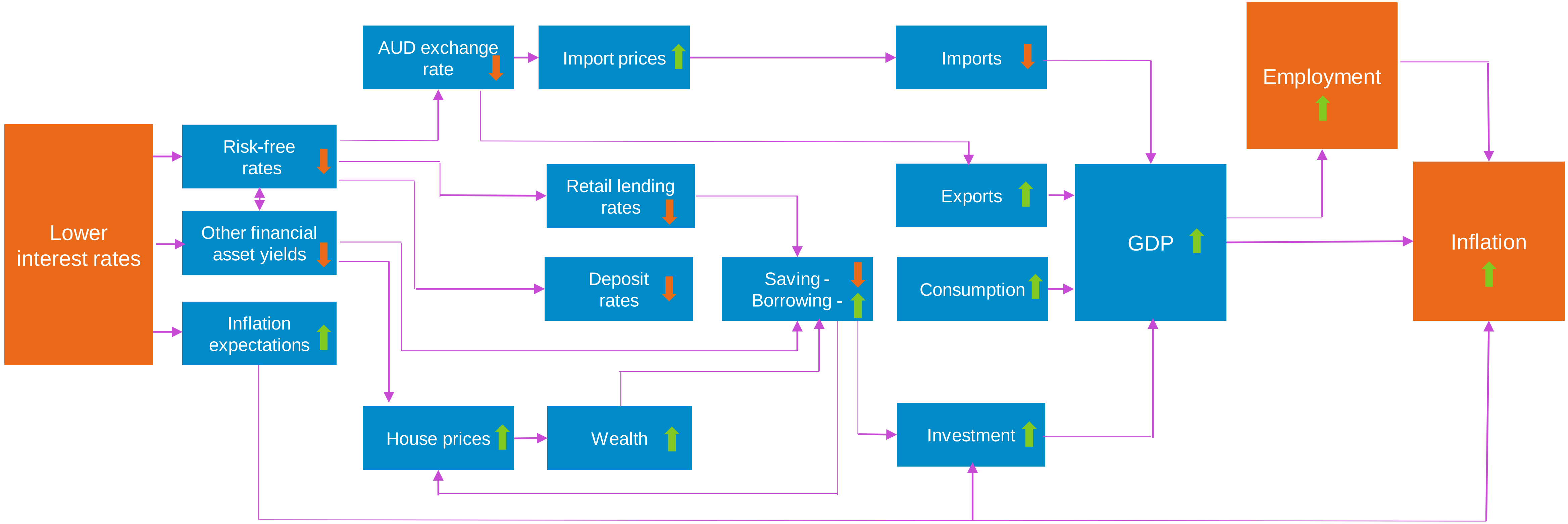
Debt has never been cheaper



Source: Fidelity International, Bank of England, Reserve Bank of Australia, Bloomberg, April 2021

How central banks think lower interest rates work

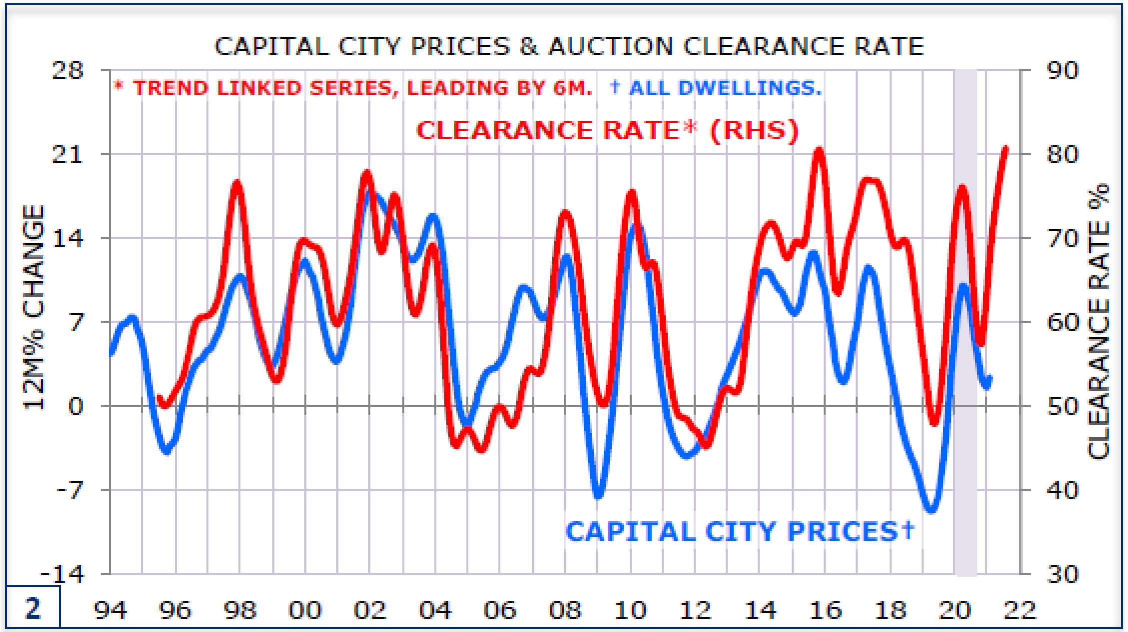
The transmission mechanism of monetary policy

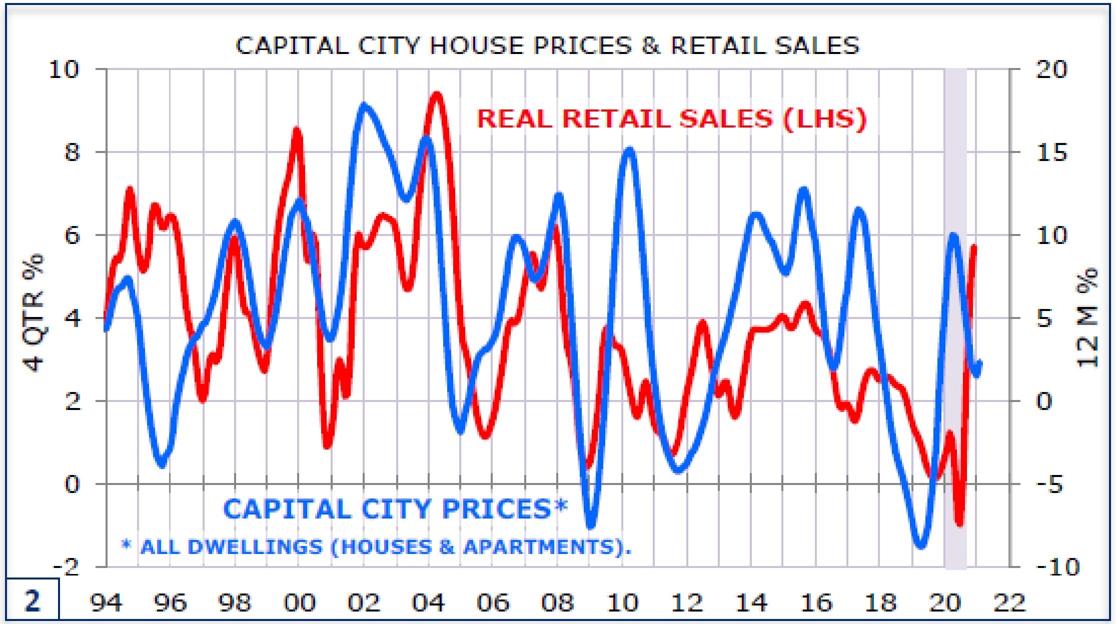


Source: Fidelity International, Reserve bank of New Zealand, April 2021.

Higher house prices will support consumption

Lower mortgage rates fueling borrowing

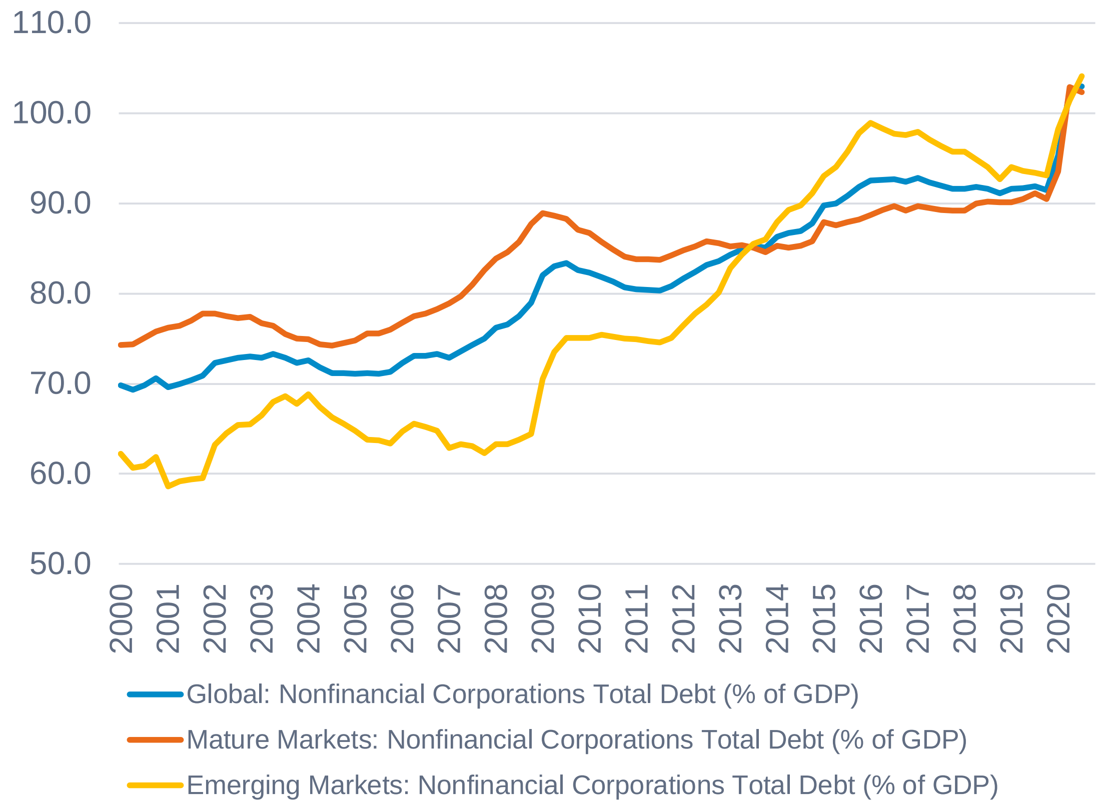


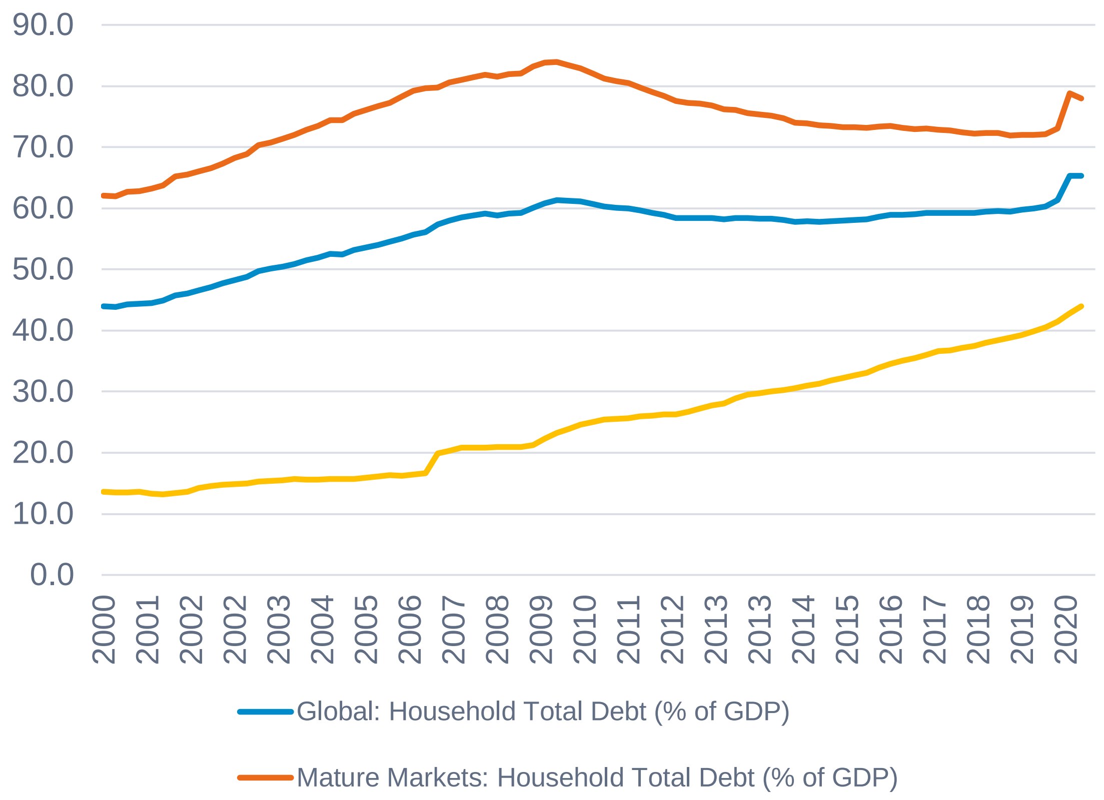


Source: Fidelity International, Minack Advisors, April 2021

Leverage is rising quickly

Corporate and household debt to GDP levels have risen due to the recession and more borrowing

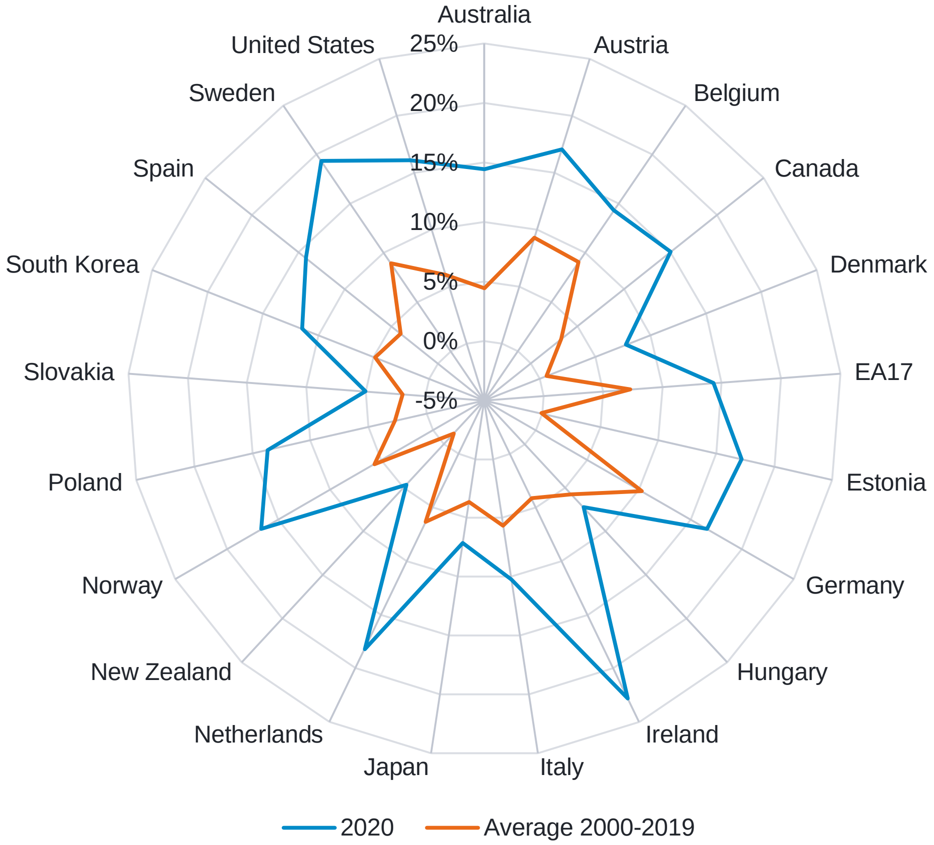




Source: Fidelity International, IMF, April 2021

Optimism is warranted given the build-up of savings

Net household saving rate % - 2020 versus historical average



Source: Fidelity International, OECD, April 2021

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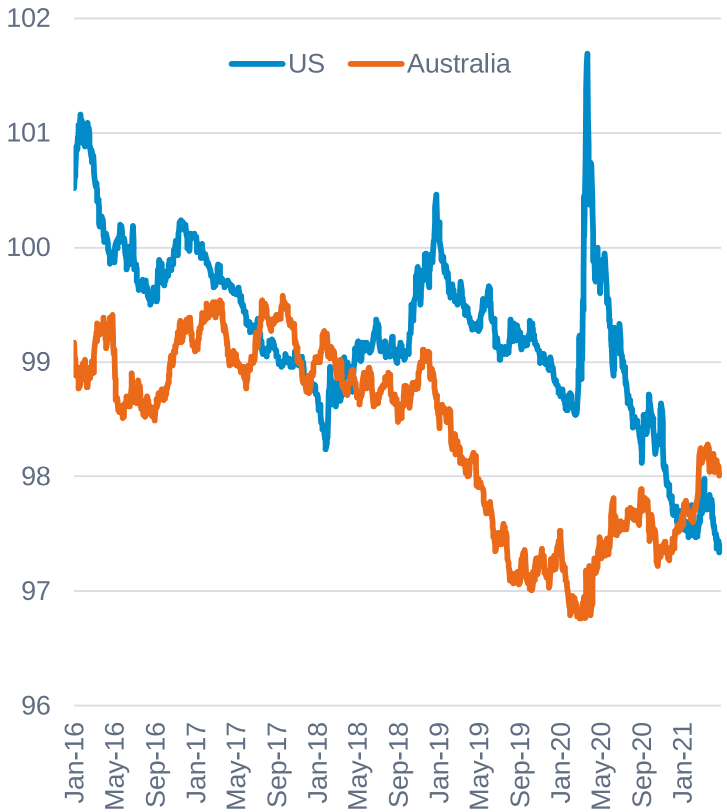
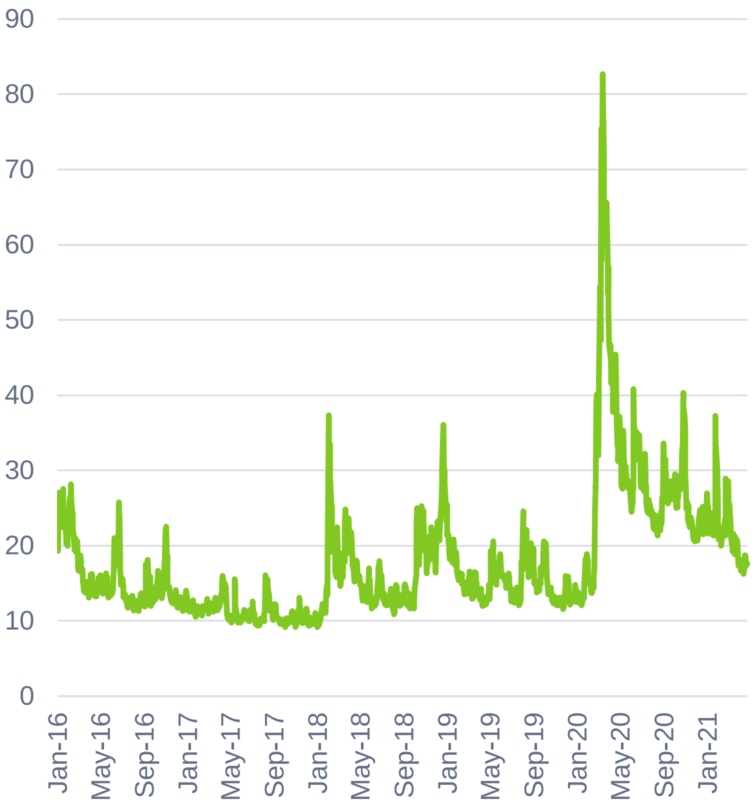
Market action is vitally important to central banks

Market volatility and risk measures can force central bankers to act

Financial conditions



VIX



US 10 year real yields (%)

Source: Fidelity International, Bloomberg, April 2021.

The US has come to the fiscal party

Output gap likely to close this year on fiscal stimulus plans

Fiscal package	Status	Timing	Size (USD billions)[1]
Covid Preparedness Act	Completed	March 2020	8
Families First Covid Response Act	Completed	April 2020	600
CARES Act	Completed	May 2020	2,200
$900bn Covid Relief	Completed	December 2020	900
The American Rescue Plan	Completed	March 2021	1,900
The American Jobs Plan	In negotiation	H2 2021	2,250
The American Families Plan	Contemplated	To follow American Jobs Plan	1,000
Total			**8,858**

"I think the price of doing too little is much higher than the price of doing something big. We think that the benefits will far outweigh the costs in the longer run… The greater risk is of scarring the people, having this pandemic take a permanent lifelong toll on their lives and livelihoods."

Secretary of the US Treasury Janet Yellen, February 18, 2021

Potential fiscal spend is almost 40% of 2019 GDP through 2025

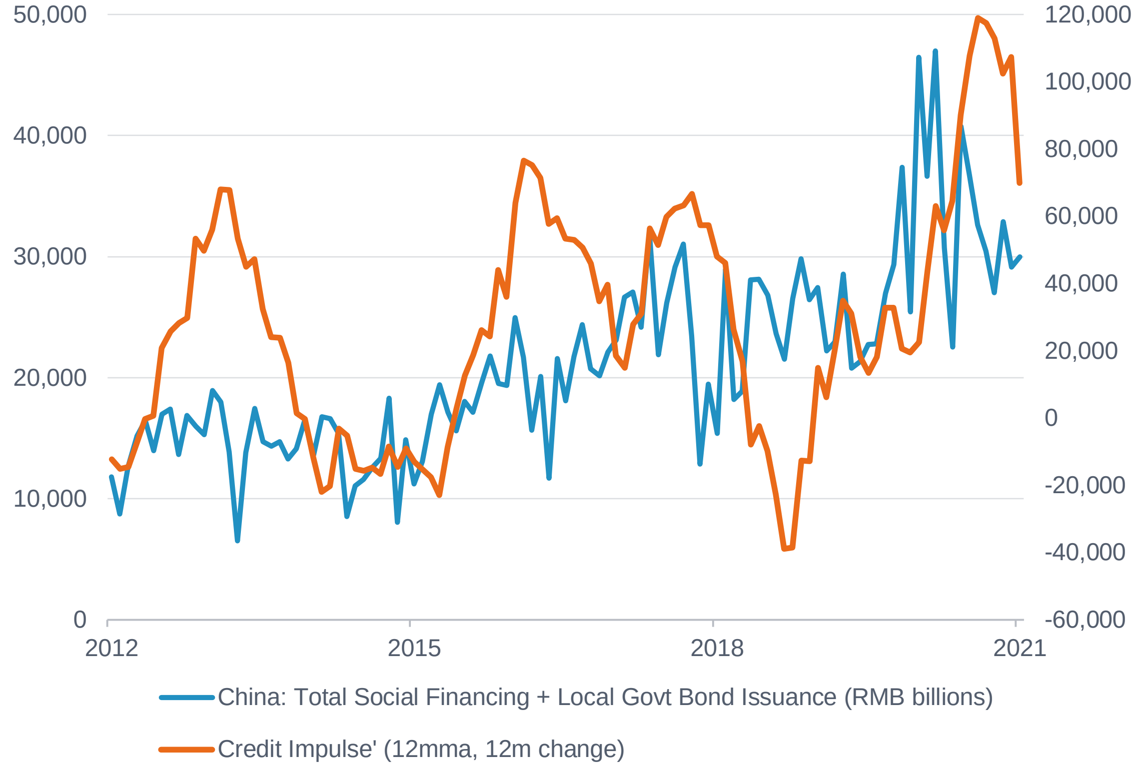
Source: Fidelity International, April 2021

China sets growth for the world

Tightening in financial conditions likely due to re-focus on controlled deleveraging and rebalancing

China Financial Conditions Index

China credit impulse



Source: Fidelity International, Yicai Research Institute, Haver Analytics, April 2021.

Emerging markets also cut rates aggressively

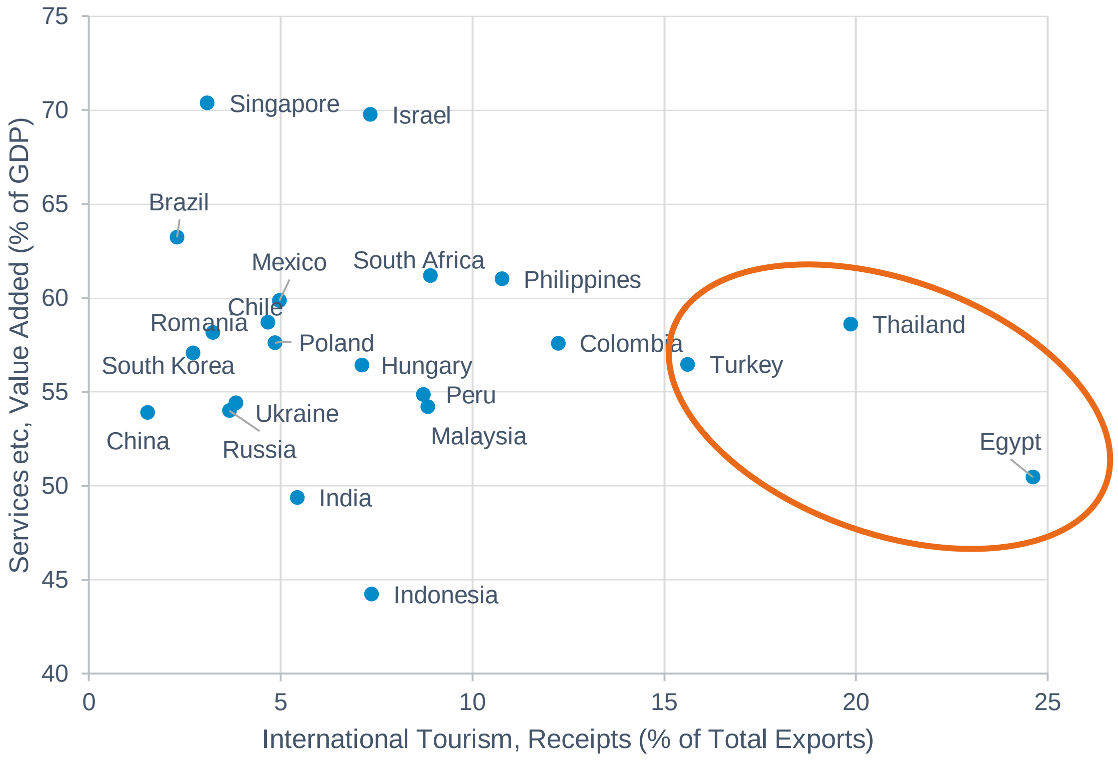
Economic dependencies will differentiate winners from losers

EM central bank policy response to COVID-19

Central Bank[a]	Policy rate	Foreign exchange intervention[b]	Expanded liquidity operations	Secondary market public sector asset purchases	Primary market public sector asset purchases	Term funding scheme
India	5.15% → 4.00%	✓	✓	✓		✓
Indonesia	4.50% → 3.50%	✓	✓	✓	✓	
Malaysia	2.75% → 1.75%		✓	✓		✓
Philippines	3.75% → 2.00%	✓	✓	✓	✓	
Thailand	1.00% → 0.50%	✓	✓	✓		✓
Brazil	4.50% → 2.00%	✓	✓[c]			✓
Mexico	7.00% → 4.00%	✓	✓[c]	✓		✓
Russia	6.00% → 4.25%	✓	✓			✓
South Africa	6.25% → 3.50%		✓	✓		
Turkey[d]	10.75% → 17.00%	✓	✓	✓		

(a) This group of EMEs is covered because of their economic and financial linkages to Australia as well as their importance for the global economic outlook. The RBA also monitors significant developments in other emerging economies.
(b) Foreign exchange intervention is announced in some cases, but in others a judgement must be made based on observed movements in reserves levels.
(c) The central banks of Brazil and Mexico entered into bilateral swap line agreements with the US Federal Reserve.
(d) The central bank of Turkey reduced policy rates to 8.25% between March and May 2020 before increasing policy rates to 17% between September and December 2020.

Tourism receipts as a % of total exports vs services as % of GDP



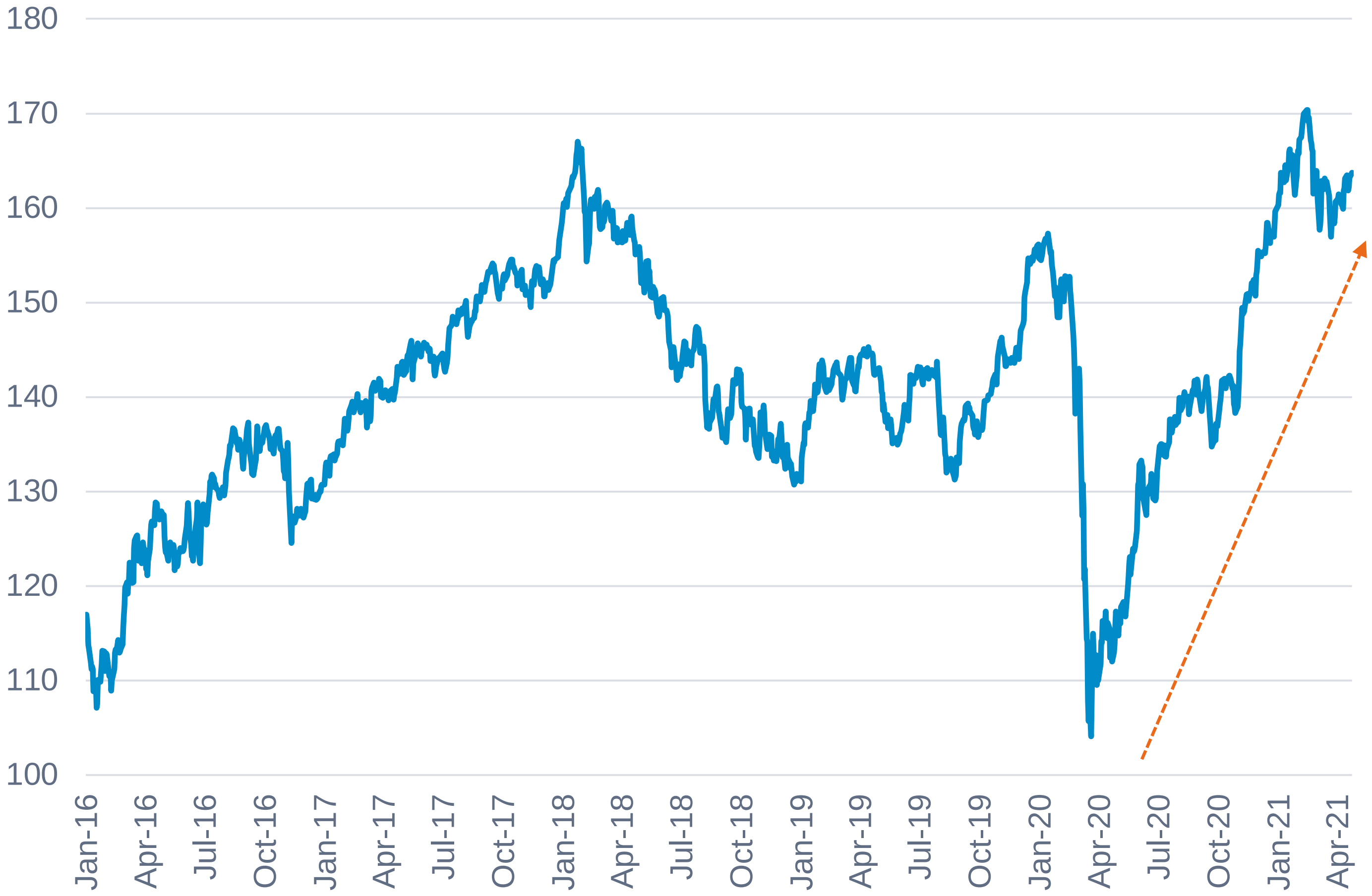
Source: Fidelity International, IMF, April 2021.

Long-term structural forces in emerging markets are positive

Global investors are will likely increasingly allocate capital to the region

1. …will drive global growth;
2. …are more resilient to capital outflows;
3. …are becoming technology innovators;
4. …have younger and larger populations;
5. …are experiencing rising wealth;
6. …have less debt;
7. …have growing consumer markets;
8. …offer attractive valuations.

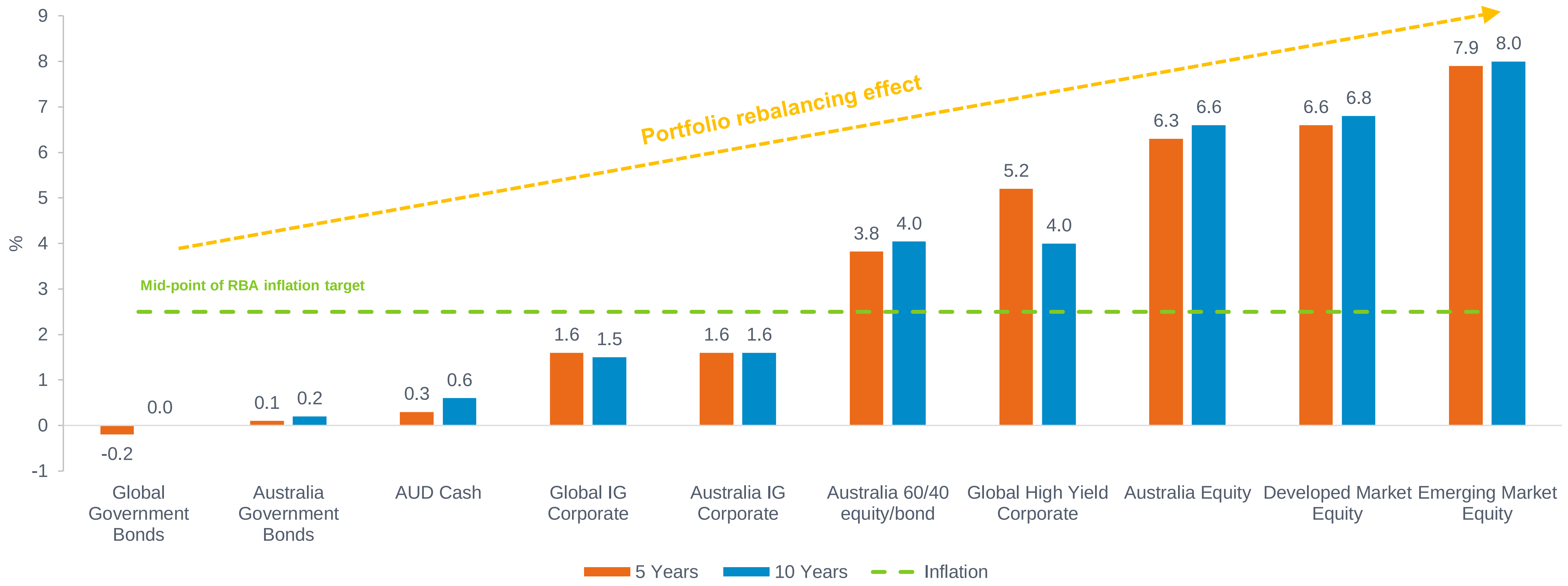
Bloomberg Emerging Markets Capital Flow Index



Source: Fidelity International, April 2021

Fidelity's Capital Market Assumptions

Modelled annualised returns



Source: Fidelity International. September 2020. Assumptions are based on proprietary modelling, for illustrative purposes only and not a financial advice. They reflect the views of investment professionals at Fidelity International.

Global investment views

Fidelity's core 12-18m asset allocation views

Selectively taking risk in equity and credit markets – not too hot but not too cold either

Asset class	View
Equity	£££ **£** £
Credit	££ **£** ££
Duration	£ **£** £££
Cash	££ **£** ££

Currency	View
USD	£££ **£** £
EUR	£ **£** £££
JPY	££ **£** ££
AUD	££ **£** ££
Emerging market currencies	£££ **£** £

Equities	View
US	££ **£** ££
UK	£££ **£** £
Europe ex. UK	£ **£** £££
Japan	£££ **£** £
Australia	££ **£** ££
Emerging markets	££ **£** ££

↑ ↓

Represents change in position from last month

Duration	View
US Treasuries	££ **£** ££
Euro core (Bund)	£ **£** £££
Australia government	£££ **£** £
Japan	£ **£** £££
Inflation linked bonds (US TIPS)	£££ **£** £

Credit	View
Investment grade bonds	£ **£** £££
Global high yield bonds	£££ **£** £
Emerging market debt (hard currency)	££ **£** ££

- We see the ongoing recovery in the global economy gathering pace, as the vaccine roll-out accelerates, supporting a wider economic reopening and the reflation theme becomes more embedded
- Consumer strength, fiscal stimulus dominating macro policy and central bank accommodation will be key pillars of support
- Regional disparities persist, and there are concerns with some areas in emerging markets, in particular as China modestly tightens policy, and we see ongoing tensions on trade and geopolitics as potential sources of risk
- Markets have recently been in a consolidation phase as deflationary tail-risks are priced out and bond markets have adjusted...and we are aware that a key risk for markets is tighter financial conditions through rising bond yields, a stronger dollar or tightening credit markets
- Recognising these continued risks, and combined with elevated valuations in some markets, **we maintain our current stance of selectively taking risk in equity markets, in cyclical equity regions and higher yielding credit markets, while moving our EM equity overweight to neutral, and holding a small overweight to the dollar as protection against our risk-on positions and the potential for a re-emergence in US exceptionalism**

Source: Fidelity International, as at April 2021. Note: reflects the views of Fidelity Solutions & Multi Asset, for illustrative purposes only.

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Fidelity International

A global investment and retirement savings business

What we do at Fidelity International

$766bn
Total client assets*

2.55m
Clients

We have one of the largest global research capabilities in the world

90% of our research is produced in-house

We meet with company management over 15,000 times a year

We carry out our research on the ground – meeting customers, suppliers, and experts to form conviction views

Locally we set up in 2003 and offer a range of Australian and global funds

A number of our funds have been endorsed by the market and we were awarded Morningstar Overall Fund Manager of the Year 2020

Source: Fidelity International, April 2021. Data is unaudited, asset figures are rounded to the nearest US$ billion. * Includes assets under management and assets under administration.

Strategies for long-term investing

The only certainty is uncertainty

1. Exploit a long-run time horizon
2. Diversify
3. Cash is now return-free
4. Minimising costs can come at a cost
5. Be selective

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Strategies for long-term investing

Anthony Doyle
Cross Asset Specialist

June 2020

Given the inherent volatility of security prices in capital markets, it is useful to remind ourselves of strategies that investors can utilise to meet their investment goals. This is important when constructing and positioning a diversified portfolio of assets, a challenge that most financial advisers face daily. Reminding ourselves of the fundamentals of portfolio construction can help investors position portfolios appropriately in times of crisis and volatility.

Exploit a long-run time horizon

The free lunch

Risk-free is return-free

Minimising costs can come at a cost

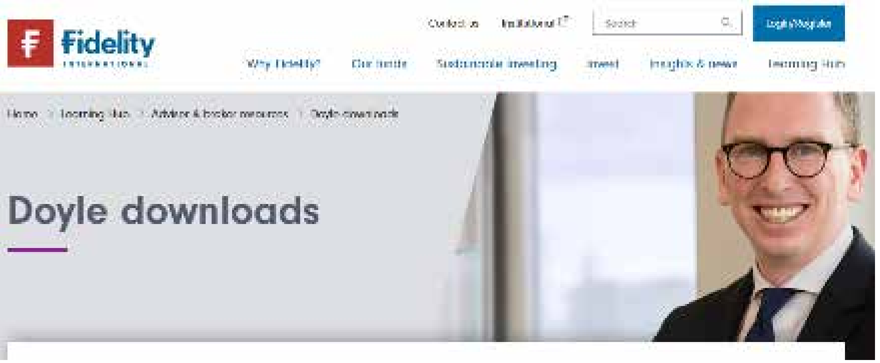
Source: Fidelity International, April 2021.

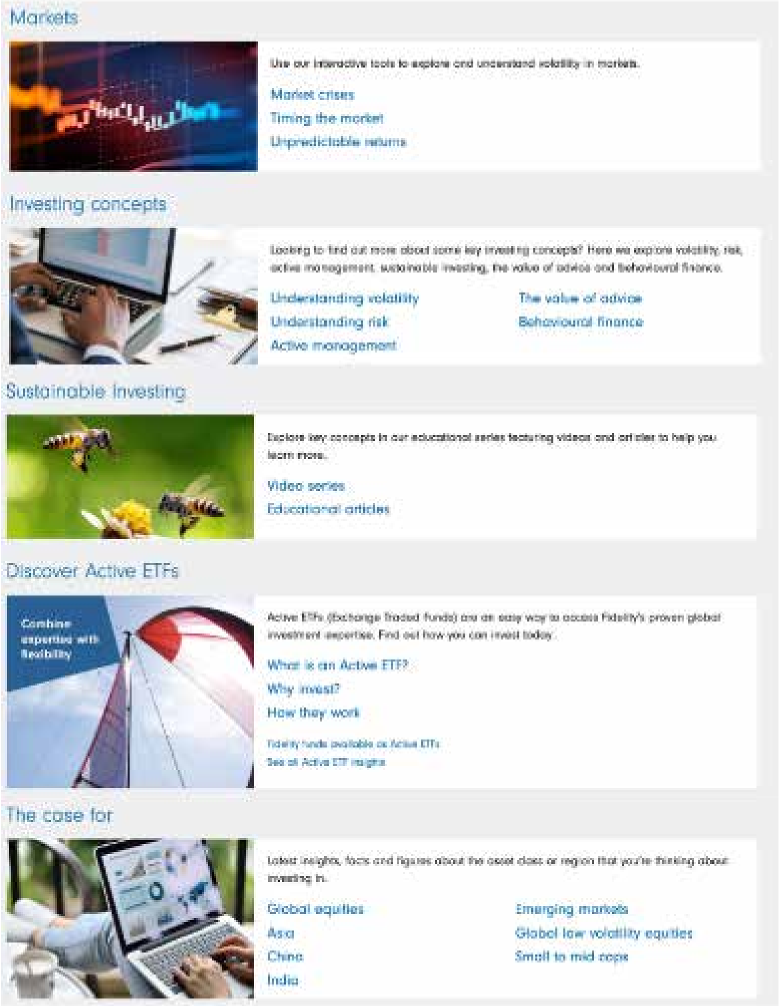
Explore the Fidelity learning hub

Investor information and further reading

Whether you're just starting out or a seasoned investor looking to dive deeper into investment principles, we've got a range of guides, tools and information to help you understand your options.

https://www.fidelity.com.au/learning-hub/





Source: Fidelity International, April 2021.

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