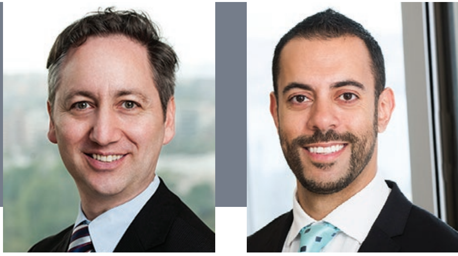
Fidelity INTERNATIONAL



From the desk of

James Abela and Maroun Younes

Portfolio Managers, Fidelity Global Future Leaders Fund

May 2023

Some sunshine has followed the storm

Global markets remain volatile and choppy. In fact, almost one-third of all trading days over the last six months have seen moves of greater than 1% (both up and down), indicating a market driven by daily news headlines and emotion. In such environments, it's easy to get whipsawed around. However, to 30 April 2023, the Fidelity Global Future Leaders Fund has returned 5.5% in the same six-month period, rewarding investors who have looked through the daily noise and focused on the business operations and fundamentals.

The culprits remain the same: persistently high inflation, resolute central banks committed to taming the inflation beast, and a global economy that is lacklustre and fuelling fears of a recession. This scenario currently seems most pronounced in the USA, with recession fears elevated in the world's largest economy. By contrast, China has emerged from multiple Covid lockdowns and the economy is seemingly on an upwards trajectory, buoyed by excess savings fuelling an increase in consumer spending.

Dominos fall in financials

To make the situation even more challenging, regulators are walking a tightrope to reduce pressure on the banking system. The collapse of Silicon Valley Bank, Signature Bank and First Republic Bank in the USA, as well as Credit Suisse in Europe, sent shockwaves through the financial system. However, regulators were quick to act to stabilise confidence in the system. Within the Fidelity Global Future Leaders Fund, our exposure to the financial sector is primarily via insurance brokers, asset managers and exchanges.

Who were the winners?

In terms of what has been working, quality and value styles remain the primary contributors to the Fund's performance, as well as that of the broader market. Despite the more challenging macro headwinds facing corporates, we maintain a favourable exposure to reasonably priced high-quality compounders. Our portfolio is expected to maintain low double-digit earnings growth over the next two to three years, near-term headwinds notwithstanding.

The balance sheets of our portfolio companies are, on average, in better shape than the broader market. This means our holdings should weather macro slowdowns with more ease, and if weaker competitors start to falter, they should be in a good position to consider some opportunistic acquisitions.

Once again, it's worth stressing that valuation in this market environment is paramount. Money and credit are no longer free, and those who hand it out are demanding higher and higher returns. This continues to mean that businesses with nothing other than attractive narratives based around conquering the world will remain under pressure.

We continue to favour high quality stable businesses that generate plenty of free cash and are trading at moderate or average multiples. For now, we've continued to refrain from adding too much cyclicality and economically exposed businesses to the portfolio, though a time will come in the future when we may.

fidelity.com.au

All information is current as at 5 May 2023 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.
© 2023 FIL Responsible Entity (Australia) Limited. Fidelity, Fidelity International and the Fidelity International logo and F symbol are trademarks of FIL Limited.