Outlook 2025

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Key points

- **The outlook for the global developed world mid-cap equities for 2025 remains encouraging with robust earnings growth and reasonable valuations on a relative basis.**
- **Global geopolitical uncertainty, higher for longer interest rates or lower consumer confidence may create volatility and dampen the positive outlook.**
- **We aim to balance risk and reward by investing across a strategic asset allocation mix of Quality, Value, Transition, and Momentum (QVTM) companies, while maintaining valuation discipline at both a portfolio and stock level.**

What is your outlook for global mid-caps?

Global developed world equities have benefitted from strong investor confidence over the course of 2024, which has resulted in strong returns for leading global indices. This includes the MSCI World Mid Cap Index on account of healthy earnings growth, where robust compounders have continued to deliver solid consistent returns. We have seen broad leadership across industry sectors in the mid-cap space and product innovation characteristics of the 'Global Future Leaders' profile is propelling humanity forward.

Technology leadership has been a bright spot in many sectors such as software, healthcare, consumer platforms and industrials and this will likely pass through into 2025 and beyond. While earnings growth has indeed driven global developed world mid cap stocks higher, valuations remain reasonable at 17x Price/Earnings (PE) ratio for the MSCI World Mid Cap Index based on 12-month 1 year forward earnings.

Investor sentiment remains very positive, but we are mindful of concerns emerging that the attitude towards risk is becoming "euphoric" and some valuation multiples are at a very high level. There is a real risk that investors are not well prepared for any negative surprises. Furthermore, global geopolitical tensions, higher for longer interest rates or lower consumer confidence are factors that may soften the positive outlook for 2025, although momentum remains very positive as we bring in 2025.

How are you looking to position against this backdrop?

The portfolio construction approach underpinning the Fidelity Global Future Leaders Fund aims to balance risk and reward in 2025 through:

1. **QVTM mix balance** - QVTM will be managed in our long-term strategic asset allocation mix. Quality and Momentum styles have performed strongly in 2024 as growth sectors, as well as cyclical sectors, delivered strong earnings growth and multiple expansion. In a market that has become more expensive and less willing to consider potential risks, we will likely seek more Value and Transition names with sound fundamentals, strong medium-term outlooks and attractive valuations.

2. **Valuation discipline** - With valuations of many companies reaching high levels such as PE ratios over 50x or Price/Sales over 10x, we have maintained a valuation discipline at both the portfolio and stock level. Relative to the broader market, we believe the companies we favour offer an attractive blend of quality, high returns, good growth and reasonable valuations.

3. **Sector diversification** - The traditional sectors where we discover good quality Global Future Leaders are in technology, industrials, healthcare, and consumer. Elsewhere, we have found opportunities in financials - across areas such as insurance brokers, private credit, exchanges and payment systems - which are showing structural and cyclical growth trends; some energy names in areas like membrane technology which possess unique high return characteristics; materials (US housing) which continue to deliver medium-term growth; and real estate (property services) which is more stable but not acutely subject to interest rate and valuation risks.

No outlook would be complete without acknowledging interest rates, given how topical they have been in recent years. Under President Trump, inflationary policies may be instituted, so we believe a close eye will need to be kept on US inflation to see whether the expected trajectory of interest rate cuts can continue to flow through. Any delays or changes to this expected trajectory might put added pressure on stocks whose valuations are baking in interest rate relief. This is another reason to be vigilant with respect to valuation multiples going forward.

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