

Global Market Outlook 2023

Fidelity Asia Fund

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Asian – The silver lining

Against an uncertain geopolitical backdrop and potential earnings downgrades, there are a host of interesting themes and companies in Asia. We will continue to actively manage the Fund by seeking long-term investment opportunities.

Key points

- Events that could prove beneficial in the region include concrete action to restructure China's property sector, further steps away from Beijing's dynamic Zero-Covid Policy (ZCP), and the easing of financial conditions globally.
- Potential opportunities include Chinese travel-related exposures as valuations appear increasingly attractive. Over the longer term, the US housing and construction sector should benefit from favourable tailwinds, such as demographics and infrastructure spending.
- Chinese building-materials companies are passing through the trough of highly negative demand, cost input inflation and a liquidity squeeze. Strong businesses should exit this phase in an even stronger position.

Under the backdrop of inflation, geopolitical tensions and slowing growth, what is the investment outlook for Asian equities in 2023?

We remain cautious and expect further downside. The hurdle rate of return in Asia has increased, primarily due to geopolitical reasons. Additionally, we still believe markets haven't fully priced in the earnings downgrades ahead. As such, investors should remain diligent on balance sheet strength, industry structure, pricing power and sensible management teams when selecting stocks.

What do you think could surprise the market in 2023, either positively or negatively?

Events that could prove beneficial in the region include concrete action to restructure the property sector in China and further steps away from the Chinese government's dynamic ZCP. The former is more likely due to its importance as a contributor to GDP growth. In contrast, the latter seems less likely. Instead, it relies on either further mutation of Covid proving weaker or on developing more effective indigenous treatments, which both the government and private sector are working on. Another potential positive is the easing of financial conditions globally. We think the US Federal Reserve has become too aggressive on monetary policy. The market will likely view any pivot as a near-term positive, though we have some reservations.

What themes, sectors or regions would offer opportunities and potential risks?

Chinese travel-related exposures look interesting, as do companies linked to the US housing & construction market. Both these sectors are not seeing a lot of love right now, and valuations appear increasingly attractive, having de-rated more than the broader market. Taking a longer-term view of around three to five years, we continue to believe that Covid will be cyclical, while the US housing and construction sector should benefit from favourable tailwinds, such as demographics and infrastructure spending. Lastly, Chinese building-materials companies are an opportunity. The sector appears to be passing through a trough of highly negative demand, cost input inflation and a liquidity squeeze. Strong businesses should exit in an even stronger position.

Within your portfolio, what has worked well in 2022, and what will you do differently in 2023?

Exposures to India and gold have generated solid outperformance. Given China's macro headwinds, Indian securities had a relatively low bar to outperform in the year to date. Interestingly, despite all the comments about monetary tightening in the US, gold exposure has proved beneficial. Looking ahead, we will be much more cautious with respect to the hurdle rate of return when examining possible investments in China.

How do you expect sustainability factors to influence returns in 2023, and how is this reflected in your portfolios?

Sustainability is becoming a greater focus for markets overall, and we consider this within the holistic fundamental analysis of a business. While ESG (environmental, social and governance) is primarily a risk factor within our process, we should keep an eye on potential areas of opportunity, or tailwinds, when assessing a company.

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