

# Global Market Outlook 2023

## Fidelity Global Future Leaders Fund

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## Valuation discipline crucial amidst uncertainty

**We are seeing renewed valuation discipline as investors recognise that inflation is persistent, the era of free money is ending, and speculative, loss-making businesses undergo a reality check.**

### Key points

- Higher inflation, rising interest rates and geopolitical uncertainty are here to stay and will impact economic growth in 2023.
- There is a conspicuous scarcity of growth and certainty. This is favourable for high-quality investment opportunities and justifies in-depth evaluation.
- We will focus on companies with solid market structures where pricing power and competitive edge supports margins and cushions top line declines.

## Against the backdrop of inflation, geopolitical tensions and slowing growth, what is the investment outlook for global mid-small caps in 2023?

The market continues to debate topics such as recession, hyperinflation and stagflation scenarios for 2023, and investors remain cautious. In recent months, higher inflation and an end to the 'free-money era' is translating into weakness in both consumer confidence and housing market in key global markets, leading to a much slower pace of GDP growth. Equity markets are still weak and volatile as interest rates continue to rise sharply and high inflation exerts pressure on many sectors creating downward margin risk for companies.

As the macroeconomic backdrop changes rapidly from the last decade, fundamentals will be scrutinised and the market will assign a certainty premium for equities that offer viable growth, free cash flows and a reliable growth trajectory. It will be important to steer clear of loss-making concept stocks, highly leveraged industries, low-quality momentum-driven names and high-risk microcaps.

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

A definitive timeline for the US Federal Reserve's monetary policy tightening should be well received by the market, while any further deterioration in geopolitics would heighten investors' risk aversion further. A shift in China's stance towards managing COVID-19 is also expected to be received well. Equity markets are not yet pricing in a genuine recession, as we are yet to see any meaningful earnings downgrades coming through and it is likely that stock prices may continue to feel some pressure.

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

We continue to look for opportunities in the Global mid-cap segment and the Fund is positioned to include high quality and growth names with strong market structures, visible outlook, and unique services, which will enable them to sustain margins and deliver earnings despite increasing economic pressures. The Fund remains balanced with a blend of strong positions in technology with global growth or defensive properties, insurers, diversified financial services' providers and consumer businesses with durable franchises and strong brands. Some critical considerations over the near term include pricing power (given rising input costs, inflation, and tight labour markets); sustainability of returns (as credit costs rise and competitive pressures intensify); valuation discipline and duration (what is really driving company growth - is it cyclical or structural).

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

We actively initiated energy exposure selectively in 2021, and it made a notable contribution over 2022. This included liquid natural gas producers in the US as well as solar technology businesses. Preferred insurance holdings also added value. We will continue to focus on portfolio construction across the quality-value-transition momentum paradigm to find long-duration opportunities at attractive valuations.

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

We think about environmental, social and governance (ESG) holistically within the context of the portfolio, as well as at an individual stock level. The Fund's carbon footprint at a total portfolio level is a fraction that of the benchmark and it has a better quality ESG rating than the investment universe. Over the course of 2022, we exited some positions where it was evident that the business model's long-term sustainability dynamics would not align with our approach. Fidelity's proprietary sustainability ratings offer dynamic, analyst-driven insights that are blended with our fundamental research with the aim to create strong financial and non-financial outcomes for our clients.

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