



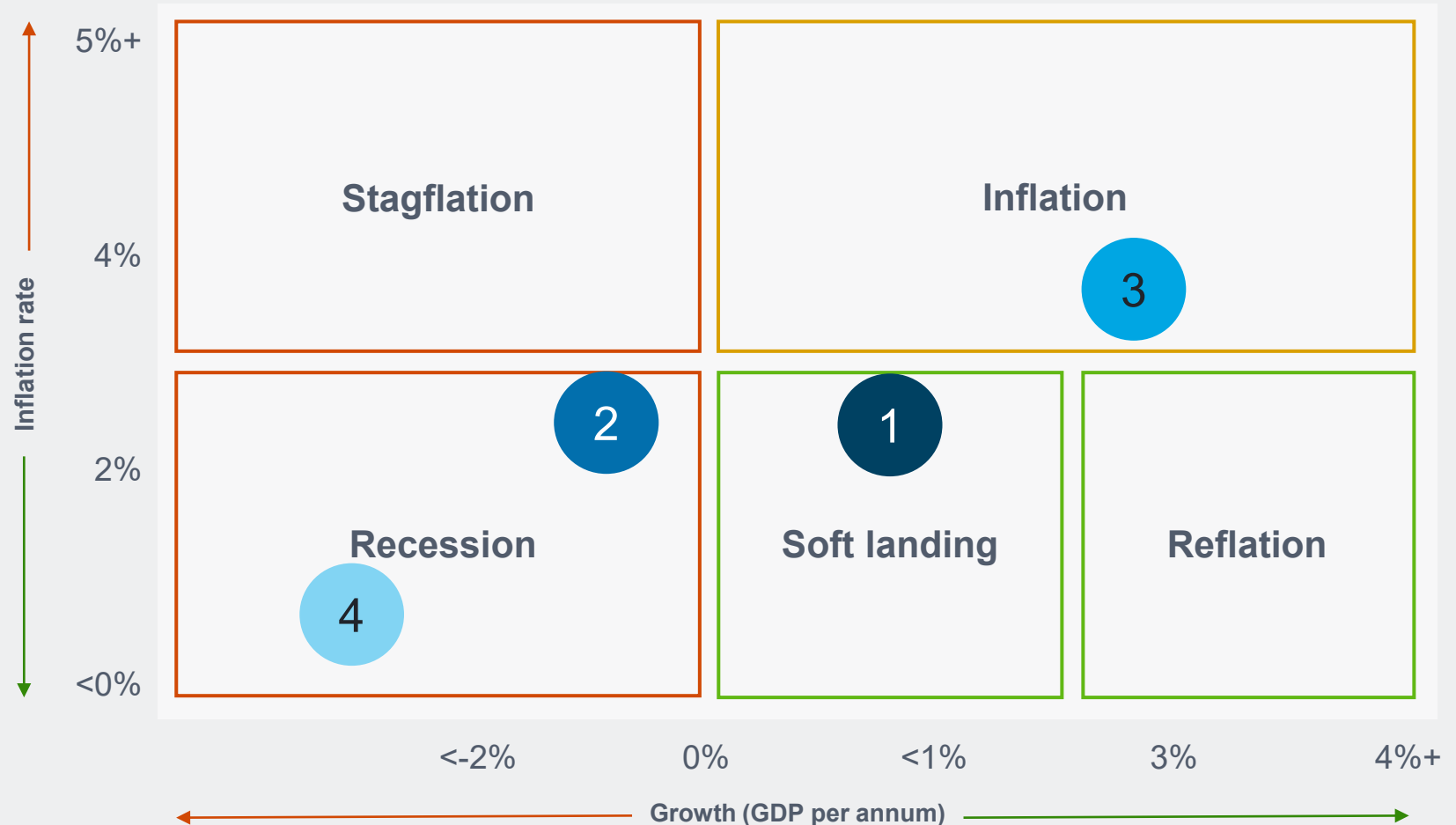
Q2 OUTLOOK 2024

**RESEARCH POWERED INVESTMENT**



# Four scenarios for developed markets in 2024

Scenario 1: <b>Soft landing</b>	40%
Scenario 2: <b>Cyclical recession</b>	25%
Scenario 3: <b>No landing</b>	30%
Scenario 4: <b>Balance sheet recession</b>	5%



Note: Inflation rate measured by US Core Personal Consumption Expenditures Price Index. Growth by US GDP per annum. Source: Fidelity International, March 2024.

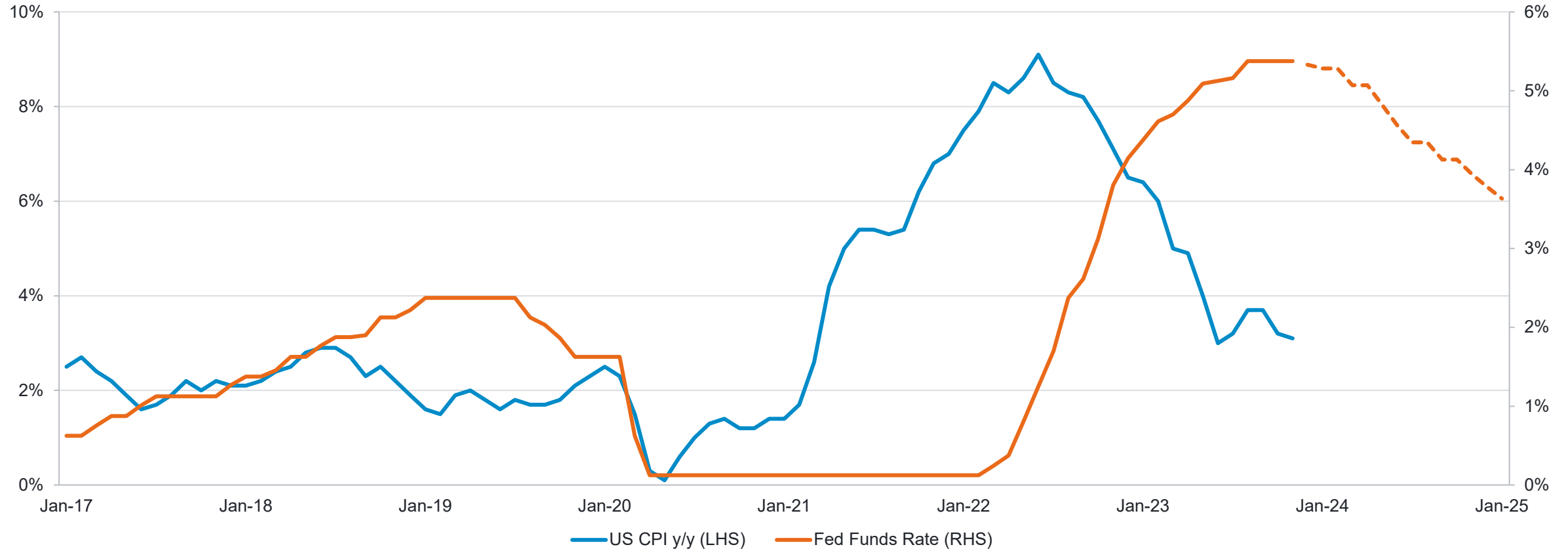
# How the scenarios could play out

	Growth	Inflation	Monetary policy	Fiscal policy
<b>Scenario 1:</b> <b>Soft landing</b> 40%	<b>SLIGHTLY BELOW-TREND SLOWDOWN</b> Growth in major economies settles at (or slightly below) trend	<b>BACK TO TARGET</b> Disinflation brings core inflation back to target; no major additional shocks to headline rate	<b>BACK TO NEUTRAL</b> Central banks start cutting rates, going back to historical levels of implied neutral rates	<b>NEUTRAL STANCE</b> No major shift in fiscal stance
<b>Scenario 2:</b> <b>Cyclical recession</b> 25%	<b>MODERATE RECESSION</b> DM economies go into contraction followed by recovery later in 2024/early 2025. Asynchronous timelines for different regions (EA/UK first, US later)	<b>RECESSION BRINGS INFLATION BACK TO TARGET</b> Following a period of stickiness, core inflation falls back to target because of damage to the demand side of the economy	<b>HIGHER FOR LONGER FOLLOWED BY A PIVOT</b> Inflation stickiness forces central banks to remain behind the curve of macro damage. They only start to cut rates when the labour market has definitively cracked. Real policy rates fall	<b>NEUTRAL STANCE</b> No major shift in fiscal stance
<b>Scenario 3:</b> <b>No landing</b> 30%	<b>CONTINUED RESILIENCE</b> Resilience in US growth continues and Europe's current slowdown reverses	<b>ABOVE TARGET STICKY INFLATION</b> Following initial disinflation, core inflation remains sticky, settling 1-2 percentage points above central bank targets	<b>HIGHER FOR LONGER</b> With resilient growth and Fed policy makers psychologically scarred by the 2021 experience, policy rates continue to be nudged up. Belated acceptance that neutral rate (R*) has risen	<b>NEUTRAL TO MILDLY RESTRICTIVE</b> Divided government in Washington takes additional stimulus off the table – Grand Old Party (GOP) control of Congress would inject a slow negative drag. In Europe, peripheral economies forced to retrench given negative debt dynamics
<b>Scenario 4:</b> <b>Balance sheet recession</b> 5%	<b>DEEP RECESSION</b> Developed market (DM) and some emerging market (EM) economies see deep and prolonged recessions lasting through to year-end as serious default cycles take hold in corporates with vulnerable sovereigns also under pressure	<b>REVERSAL OF INFLATIONARY TRENDS</b> Inflation reverses as debt deleveraging takes hold	<b>SHARP PIVOTS FROM KEY CENTRAL BANKS</b> Central banks keep rates higher for too long and pivot too late. Lumpy transmission of monetary policy inadvertently triggers deleveraging	<b>CONSTRAINED STIMULUS</b> Fiscal policy kicks in when growth outcomes become very painful, although monetary policy will still be the main backstop

Source: Fidelity International, March 2024.

# The base case – why we’re expecting a soft landing

Falling inflation marks the end of the rate hiking cycle, providing a supportive environment for risk assets



Source: Bloomberg, Haver Analytics, February 2024. \*Dotted lines shows market implied Fed Funds Target Rates.

# Our analysts have recorded improving sentiment since the turn of the year, though costs remain sticky

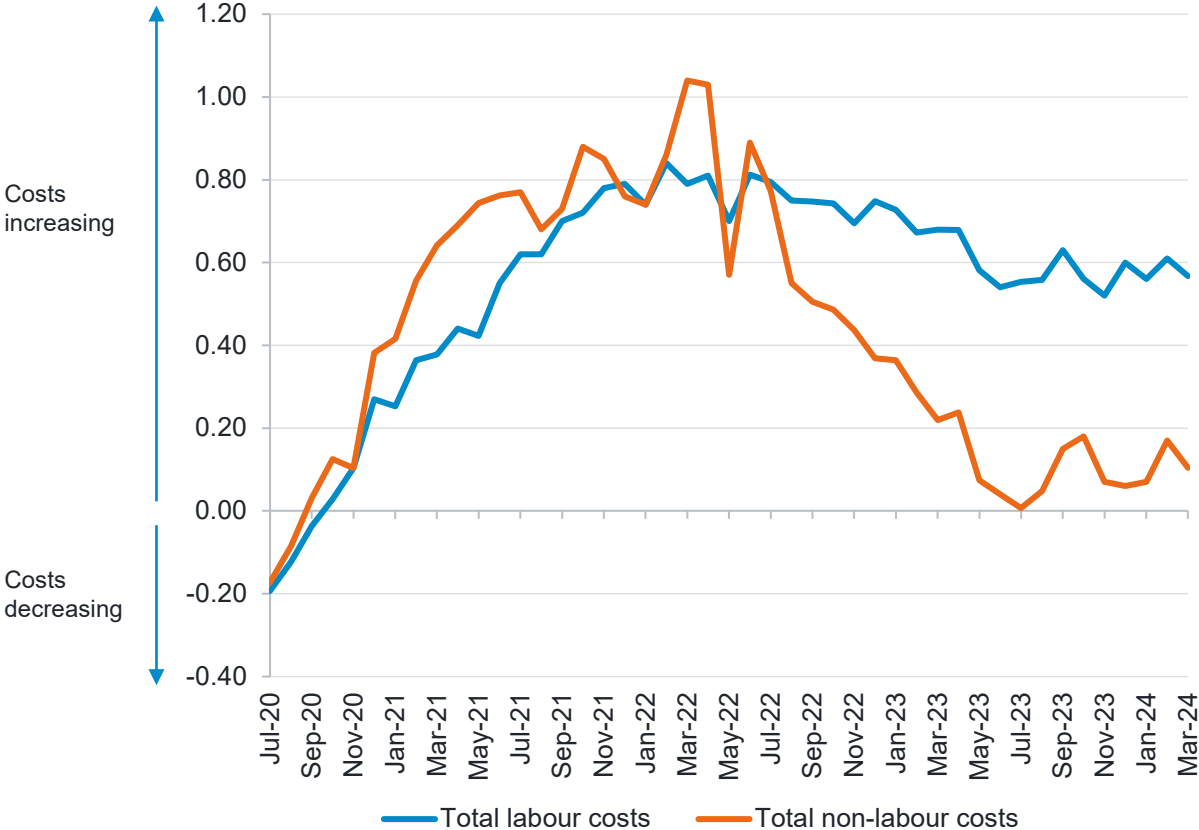
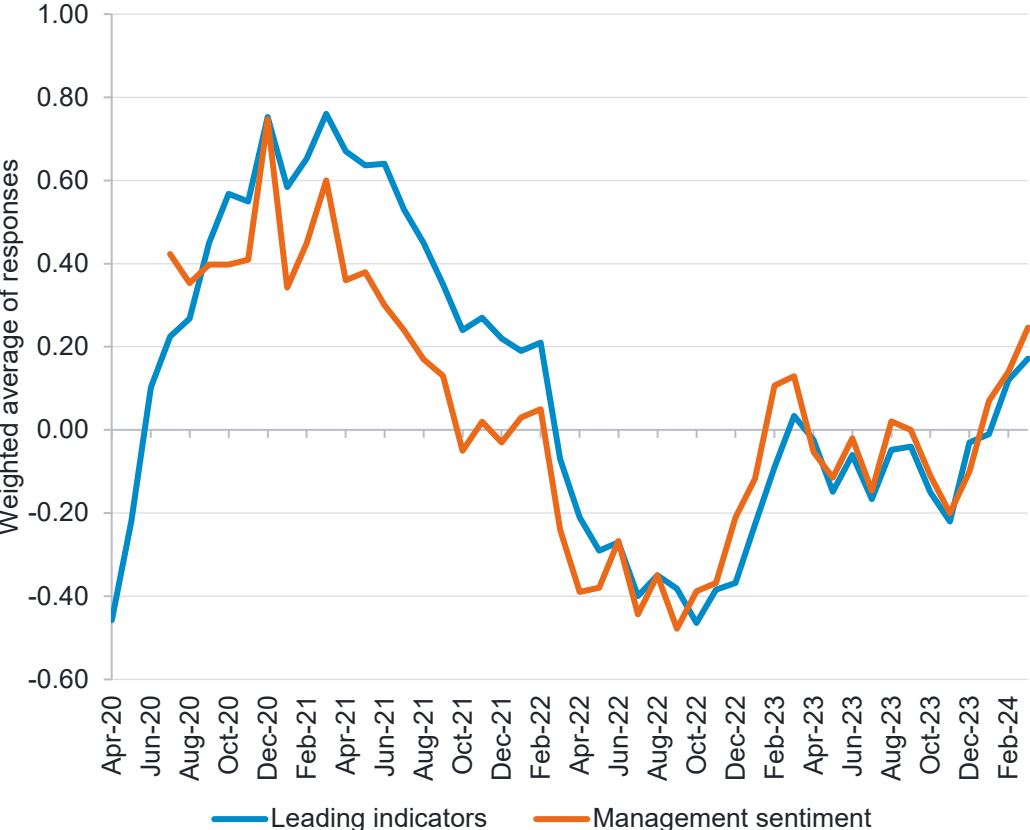


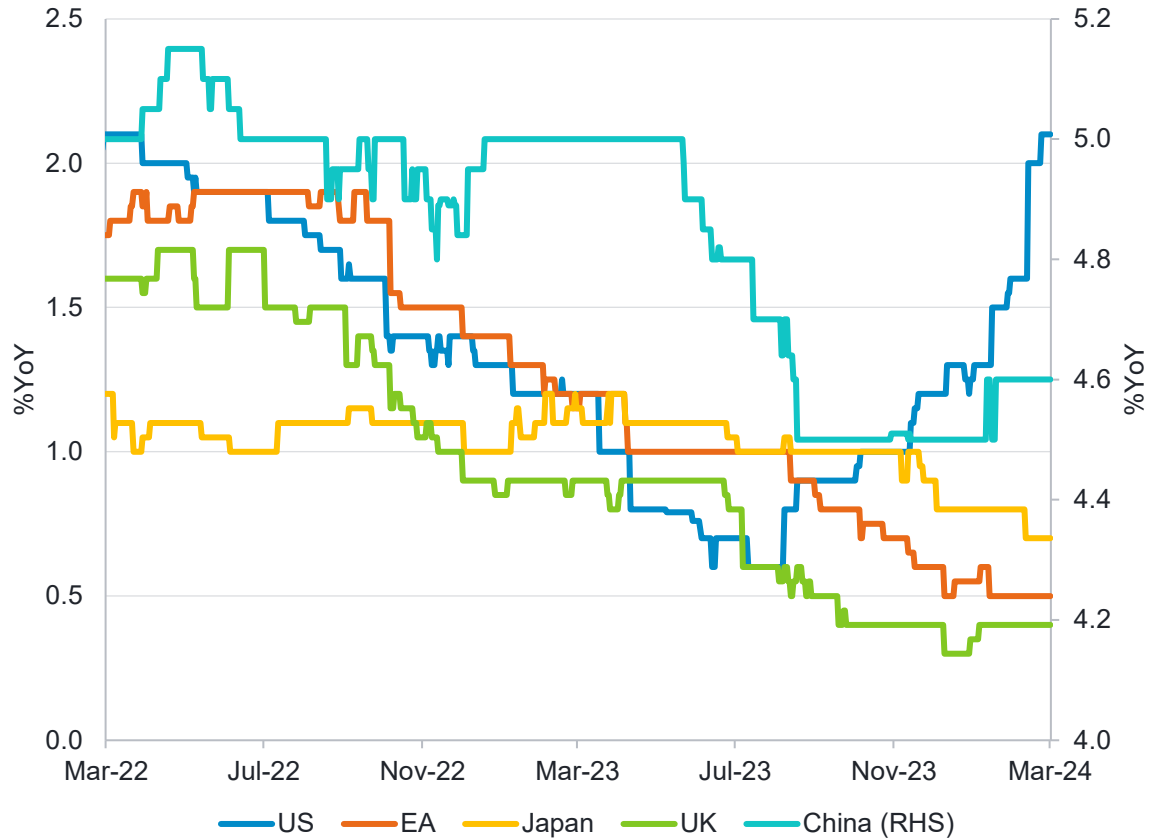
Chart shows proportion of responses reporting management sentiment is positive minus those reporting management sentiment is negative; likewise leading indicators. Strong negative and strong positive receive a higher weighting. Questions: "Based on your recent research and interactions with companies, to what extent, if at all, has your perception of management sentiment over the next 6 months changed?", and "What is the outlook for leading indicators over the next 6 months at your companies?" Source: Fidelity International, March 2024.

Chart shows proportion of responses reporting costs are increasing minus those reporting costs are decreasing; significant increases and significant decreases receive a higher weighting. Questions: "What are your expectations for total labour costs over the next 6 months compared to current levels?", and "What are your expectations for total non-labour costs over the next 6 months compared to current levels?" Source: Fidelity International, March 2024.

# But beware - no landing is looking more likely, especially in the US

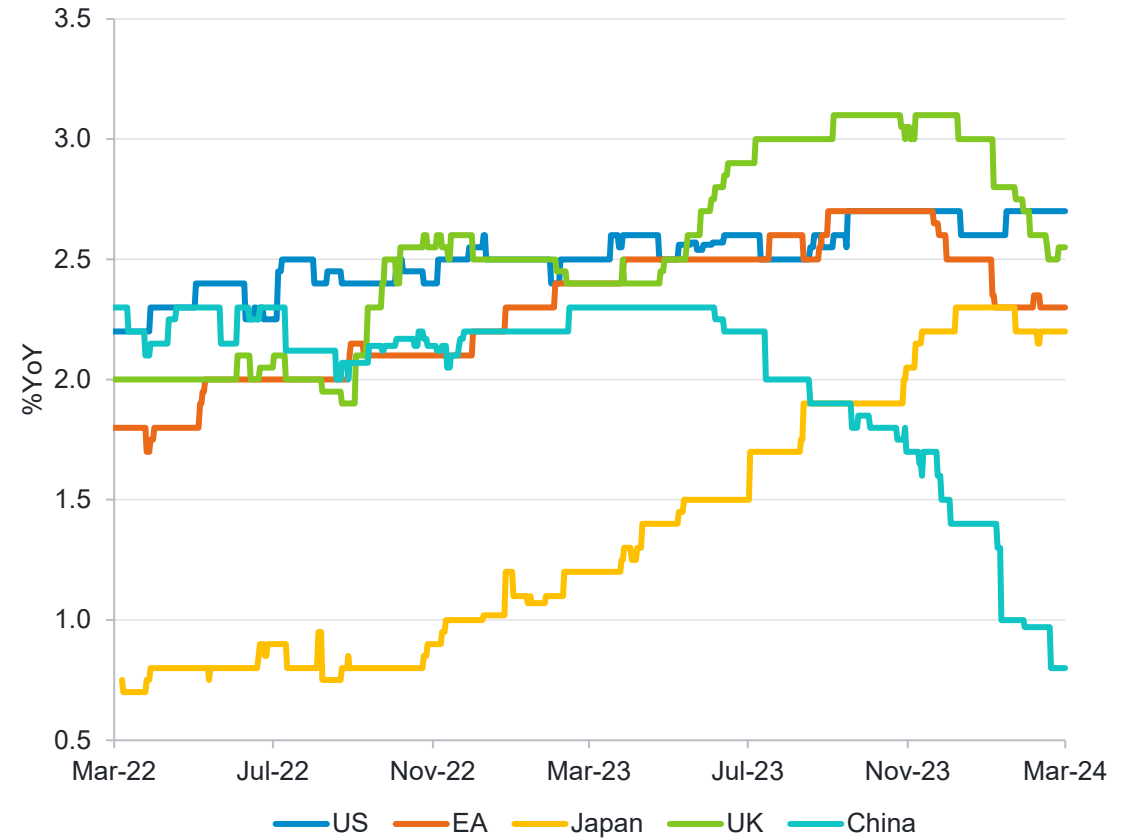
US remains an outlier with high and rising growth and inflation expectations – a tricky combination for the Fed to manage

2024 GDP Bloomberg consensus forecast



Source: Fidelity International, Bloomberg, March 2024.

2024 Consumer Price Index (CPI) Bloomberg consensus forecast



Source: Fidelity International, Bloomberg, March 2024.

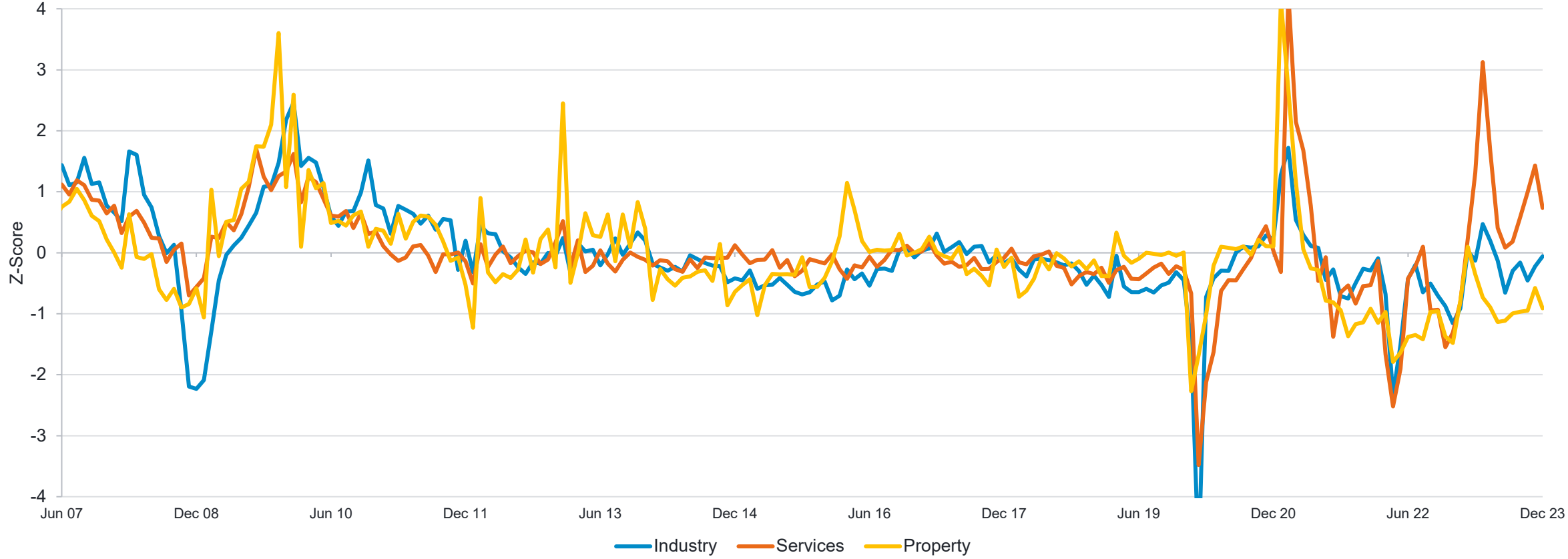
# Three scenarios for China in 2024

	Growth	Inflation	Monetary policy	Fiscal policy
<p>Scenario 1:</p> <p><b>Controlled stabilisation</b></p> <p>65%</p>	<p>The pace of recovery gradually gains momentum as consumption continues to lead. External demand slows moderately but downside pressures will be partially offset by a recovery in domestic demand. Growth stabilises in line with the government's growth target.</p>	<p>CPI and Producer Price Index (PPI) rebound initially on the back of a recovery in domestic demand. Inflation stabilises slightly below target over the medium term.</p>	<p>Incremental easing to coordinate with fiscal stimulus, the People's Bank of China (PBoC) gradually lowers both benchmark rates and the reserve requirement ratio to lower financing costs and provide ample liquidity support.</p>	<p>Policymakers roll out proactive easing and de-risking plans to resolve structural issues in local government, property and banking sectors.</p>
<p>Scenario 2:</p> <p><b>Serious slowdown</b></p> <p>25%</p>	<p>The economy faces stronger headwinds from domestic structural issues and a developed market slowdown. If financial market stress spreads, private and consumer confidence could be slow to return and growth would remain well below potential.</p>	<p>Both CPI and PPI gradually fall into deflation well below government targets.</p>	<p>Easing is in small steps and with limited effect.</p>	<p>Policymakers are slow to introduce sufficient fiscal support for growth.</p>
<p>Scenario 3:</p> <p><b>Reflation</b></p> <p>10%</p>	<p>The recovery becomes more broad-based and gains momentum with a more dovish policy setting. Property sector takes the lead from a strong monetary policy push. The initial impulse is strong, but it creates more debt problems in future. Growth may rebound above target.</p>	<p>Both CPI and PPI recover and gain momentum with the strong domestic demand rebounding to match or beat the government target.</p>	<p>The PBoC eases monetary policy more aggressively with consecutive benchmark rate and reserve requirement ratio cuts. The system is flushed with liquidity to accommodate broad-based re-leveraging.</p>	<p>Policymakers explicitly bail out stressed local governments and property sector companies, leading to renewed optimism in re-leveraging.</p>

Source: Fidelity International, March 2024.

# Services sector continues to note above average growth with manufacturing recovering to trend growth levels. The property sector remains a drag

China activity indicator (CH-AI) by sector



Note: The latest update is as of December 2023 as official data for January and February combined is due in mid -March. Source: Fidelity International, FIL Global Macro Team calculations, Bloomberg, Haver Analytics, Wind, March 2024.



# Multi Asset: Our Best Ideas

	Tilting towards Value	Structural Themes	Defence	Carry	Alternatives
Scenario 1: <b>Soft landing</b> 40%	<ul style="list-style-type: none"> <li>++ Global Mid Caps</li> <li>++ Select EM equities (China, Greece, Indonesia, S Korea)</li> </ul>	<ul style="list-style-type: none"> <li>++ AI/Semiconductors</li> <li>++ Biotech/Healthcare</li> <li>++ Climate Solutions</li> </ul>	<ul style="list-style-type: none"> <li>+ Min Vol Equities</li> </ul>	<ul style="list-style-type: none"> <li>++ EM LC bonds</li> <li>++ Hybrids</li> <li>+ Credit</li> </ul>	<ul style="list-style-type: none"> <li>+ Liquid Alts</li> <li>+ REITs</li> <li>+ Commodities</li> </ul>
Scenario 2: <b>Cyclical recession</b> 25%	<ul style="list-style-type: none"> <li>-- US Small-Caps</li> </ul>	<ul style="list-style-type: none"> <li>+ Healthcare</li> <li>+ Climate Solutions</li> </ul>	<ul style="list-style-type: none"> <li>++ Put Options</li> <li>+ Government Bonds</li> <li>-- Equities</li> </ul>	<ul style="list-style-type: none"> <li>++ USD Cash</li> <li>++ Short Duration Credit</li> <li>-- High Yield Bonds</li> </ul>	<ul style="list-style-type: none"> <li>++ Absolute Return</li> <li>++ Dispersion</li> <li>+ Gold</li> </ul>
Scenario 3: <b>No landing</b> 30%	<ul style="list-style-type: none"> <li>+ Global Mid Caps</li> <li>+ Japanese Equities FX hedged</li> <li>-- US Mega-Caps / Growth / Momentum</li> </ul>	<ul style="list-style-type: none"> <li>+ Future Financials</li> <li>+ Transition Materials</li> </ul>	<ul style="list-style-type: none"> <li>+ Cyclical equities</li> <li>-- Bond proxies</li> <li>- Government Bonds</li> </ul>	<ul style="list-style-type: none"> <li>+ Dividend Futures</li> <li>++ Hybrids</li> <li>- Investment Grade</li> </ul>	<ul style="list-style-type: none"> <li>++ Absolute Returns</li> </ul>
Scenario 4: <b>Balance sheet recession</b> 5%	<ul style="list-style-type: none"> <li>-- US Small-Caps</li> <li>-- US Mega-Caps / Growth / Momentum</li> </ul>		<ul style="list-style-type: none"> <li>++ Put Options</li> <li>++ Government Bonds</li> <li>-- Equities</li> </ul>	<ul style="list-style-type: none"> <li>++ USD Cash</li> <li>++ Short Duration Credit</li> <li>-- High Yield Bonds</li> </ul>	<ul style="list-style-type: none"> <li>+ Absolute Returns</li> <li>+ Dispersion</li> </ul>

Notes: '+' is a positive view; '-' is negative; reflects our views of relative performance for each scenario.

Source: Fidelity International, March 2024

# Important Information

All information is current as at 18 April 2024 unless otherwise stated. Not for use by or distribution to retail investors. Only available to a person who is a "wholesale client" under section 761G of the Corporations Act 2001 (Commonwealth of Australia) ("Corporations Act").

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