Q4 OUTLOOK 2024

RESEARCH POWERED INVESTMENT

Four scenarios for developed markets in 2024

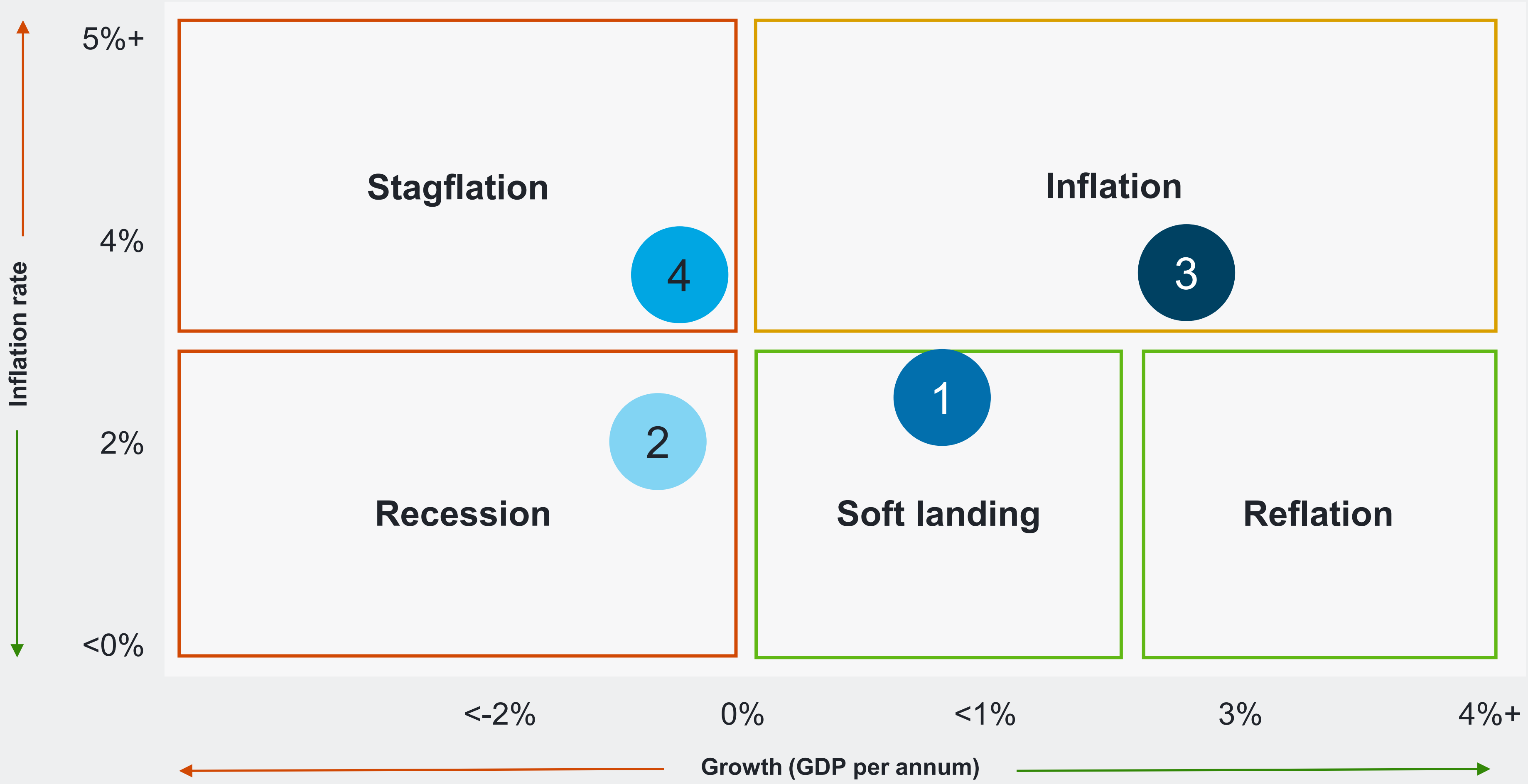
Interconnected and interdependent

Scenario 1:
Soft landing **55%** (40%)

Scenario 2:
Cyclical recession **30%** (25%)

Scenario 3:
No landing **10%** (30%)

Scenario 4:
Stagflation **5%**



Note: Brackets reflect previous probabilities. Inflation rate measured by US Core Personal Consumption Expenditures Price Ind ex.
Source: Fidelity International, September 2024.

Our quarterly survey of Fidelity's specialist equities and fixed income sectoral analysts shows a clear worsening of sentiment since June

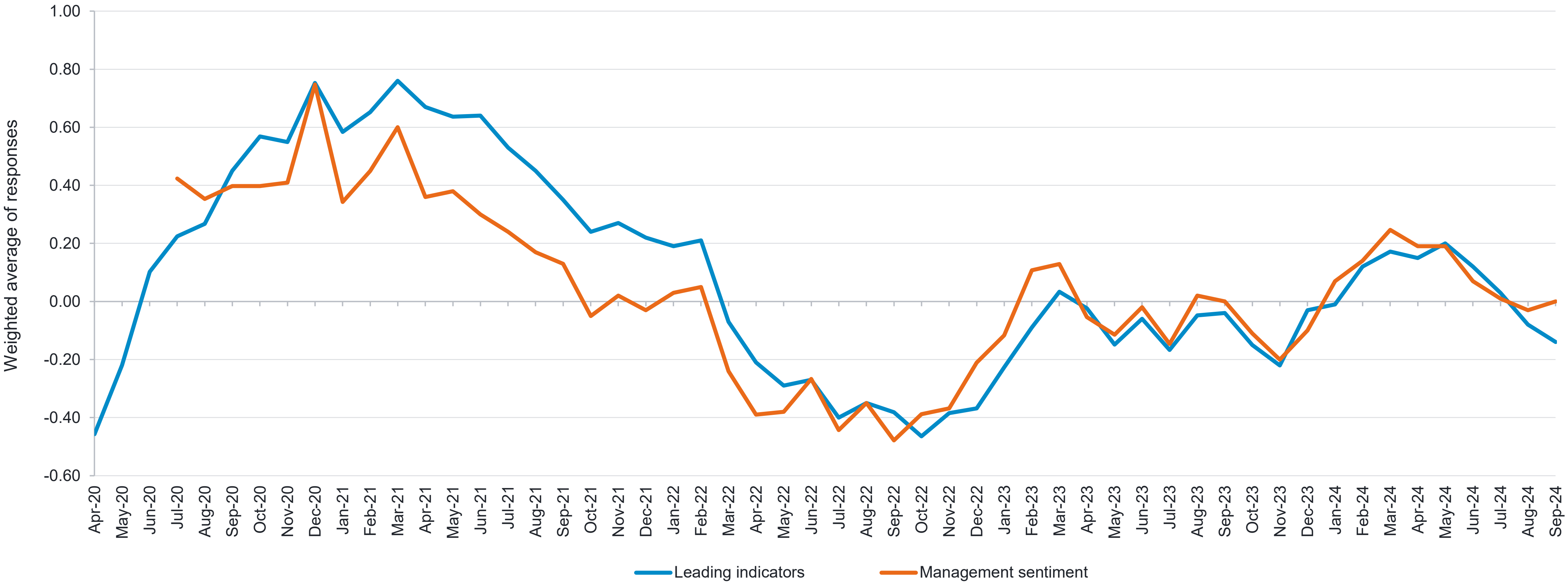


Chart shows proportion of responses reporting management sentiment is positive minus those reporting management sentiment is negative; likewise leading indicators. Strong negative and strong positive receive a higher weighting. Questions: "Based on your recent research and interactions with companies, 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, September 2024.

Cost pressure at companies has retreated, although the overall reading from our analysts shows both labour and non-labour expenses still increasing

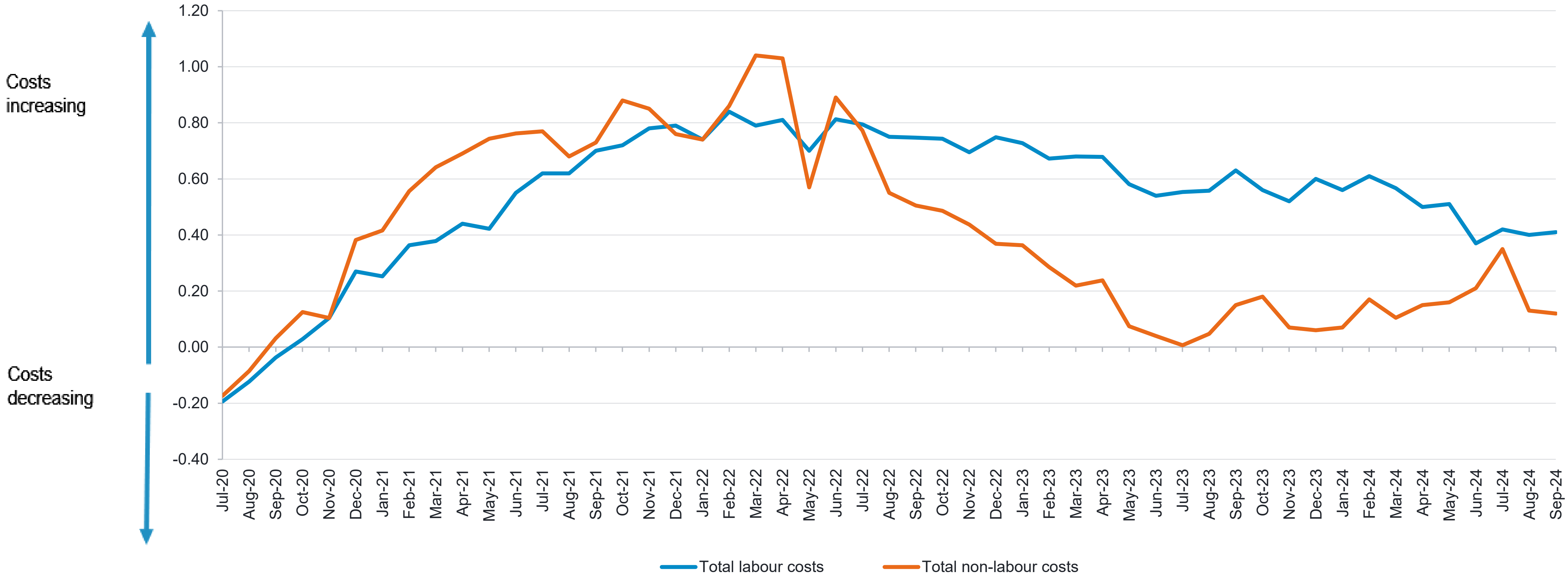
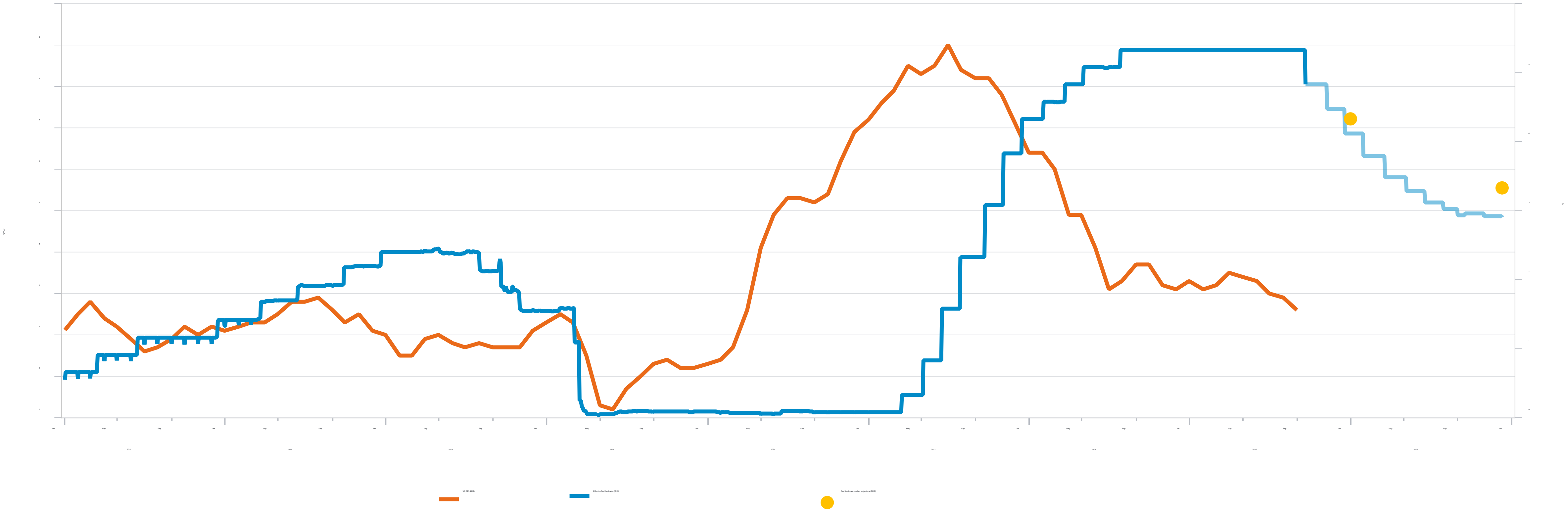


Chart shows proportion of responses reporting costs are increasing minus those reporting costs are decreasing; significant in creases and significant decreases receive a higher weighting. Questions: "What are your expectations for total labour costs over the next 6 months compared to current levels?",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

The base case – why we're expecting a soft landing

Moderating inflation marks the end of the rate hiking cycle, providing a supportive environment for risk assets. We remain hawkish relative to markets' more aggressive pace of policy easing



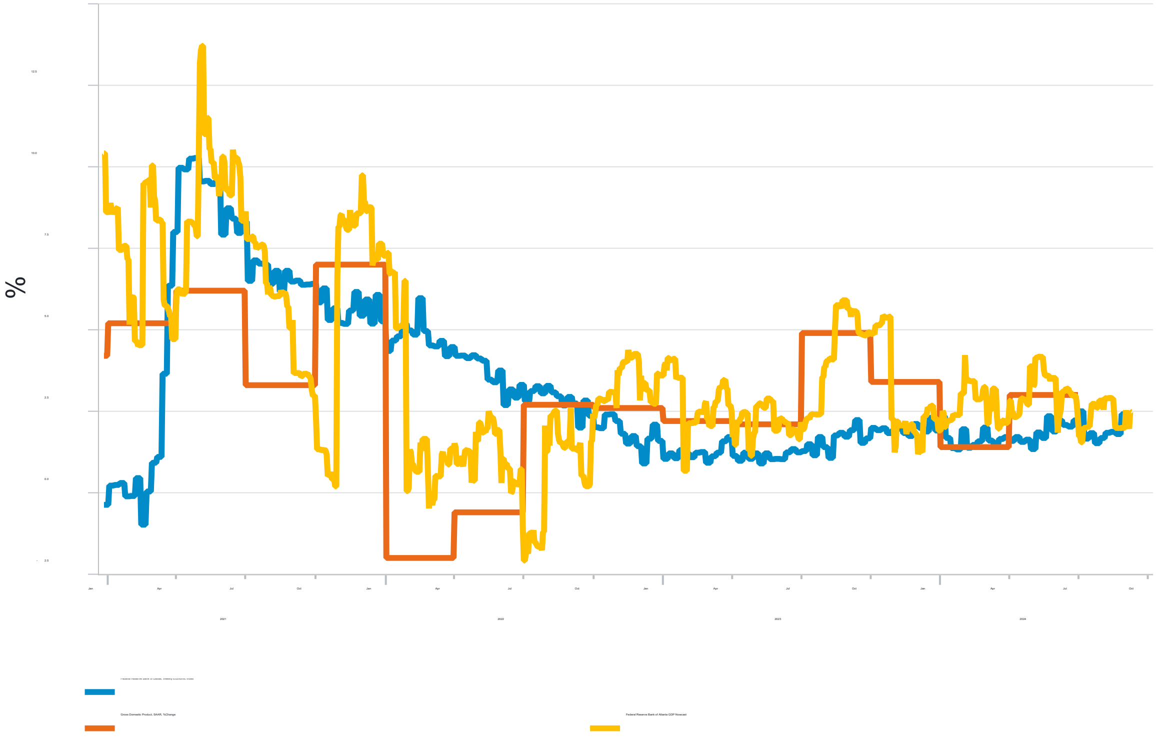
Note: Forecast for effective fed funds rate represents the implied overnight rate using the futures model.

Source: Fidelity International, Macrobond, Bloomberg, BLS, New York Fed, September 2024

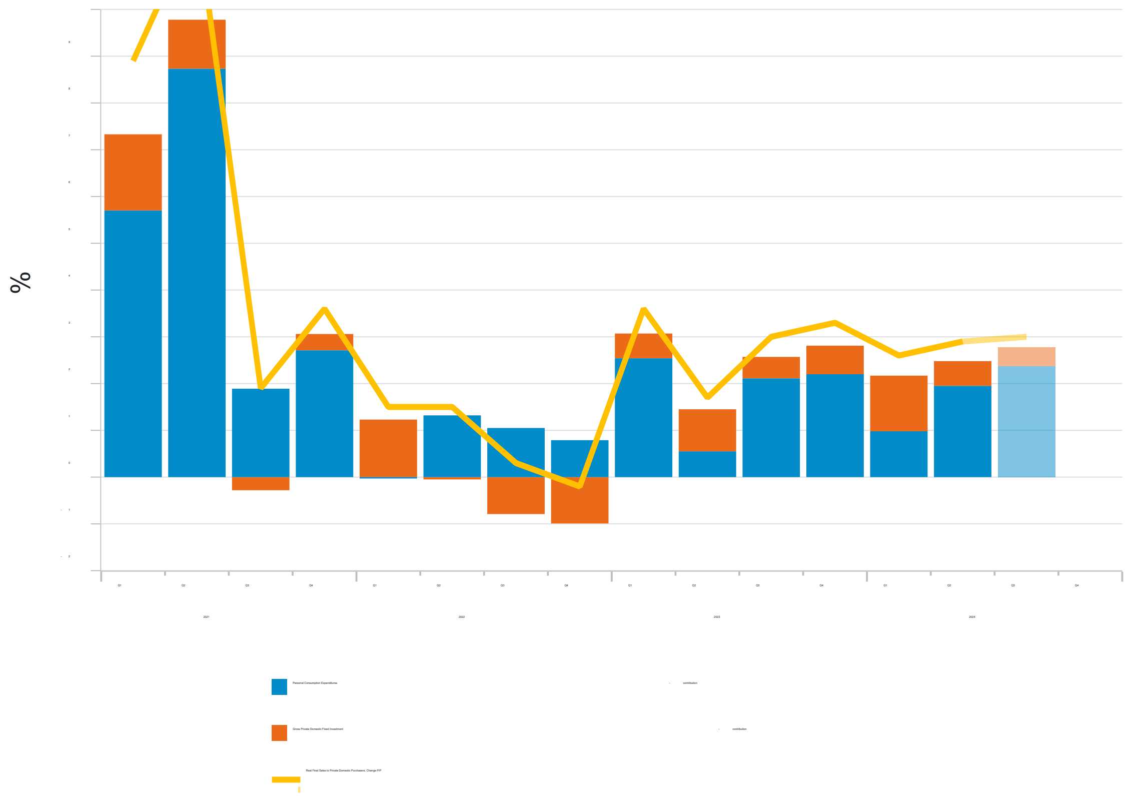
US economic growth continues to hold up at strong levels…

…despite recent recession fears. Consumer spending continues to drive growth

US GDP Quarter on Quarter, Seasonally Adjusted Annual Rate (SAAR)



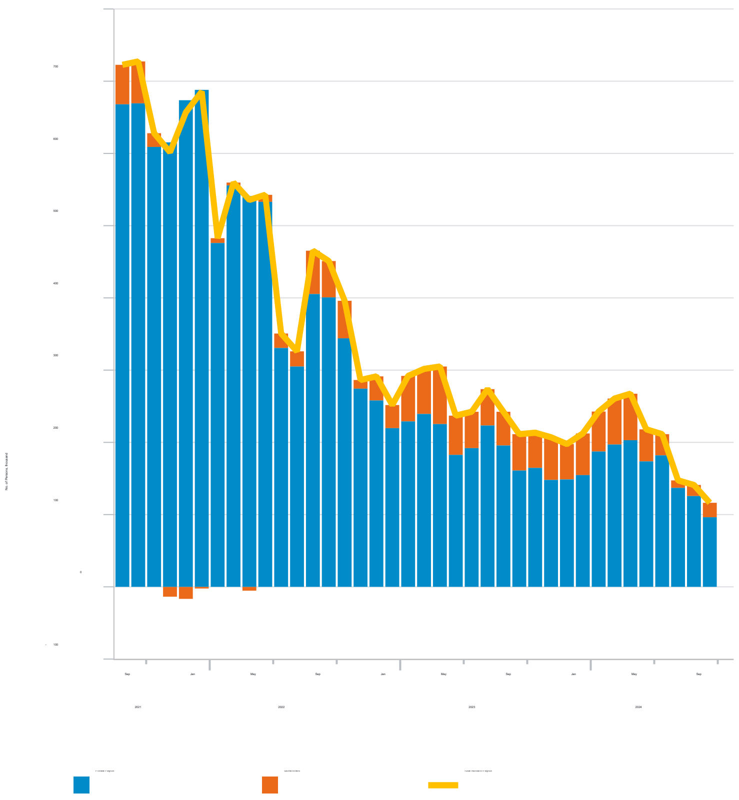
Core GDP (final sales to private domestic purchasers)



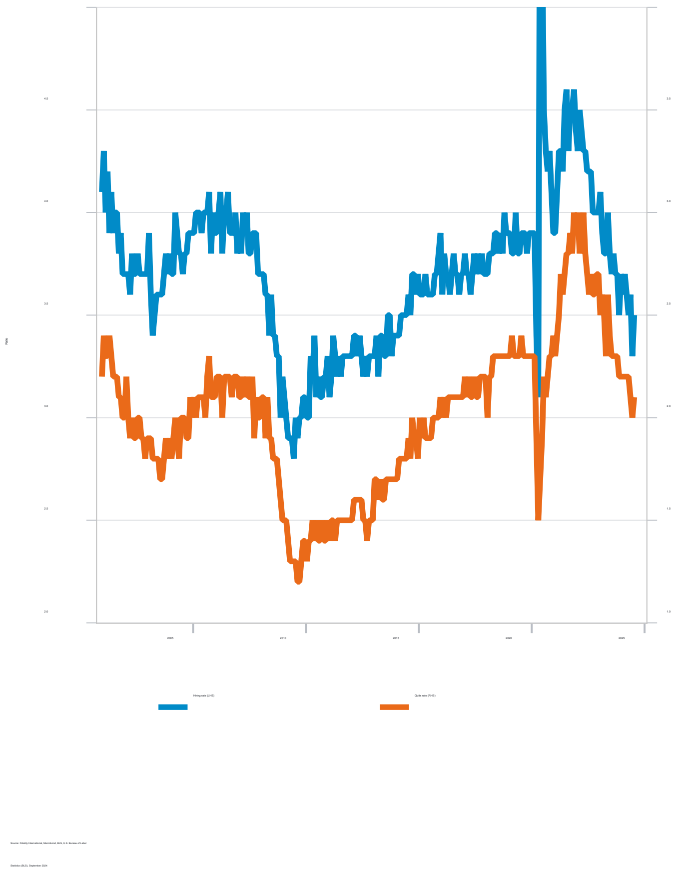
US labour market continues to see a broad based slowdown…

…with a clear loss in momentum but no imminent signs of recession yet

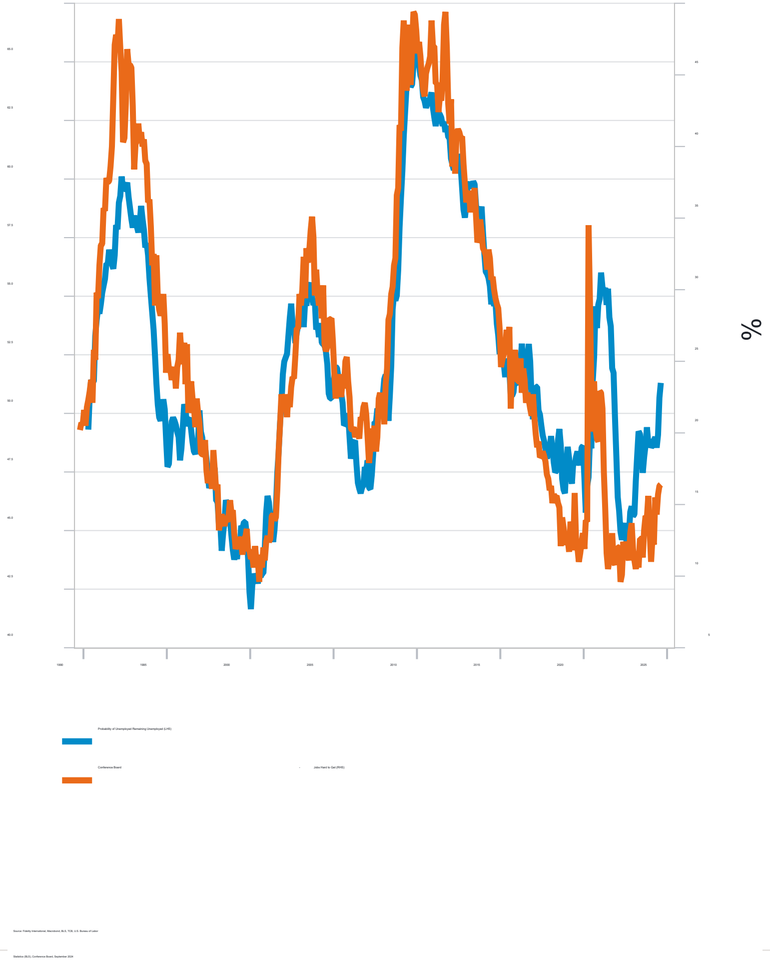
Nonfarm payrolls (3 month moving average)



Hiring and quits rates remain low…



…with increased difficulty in finding jobs

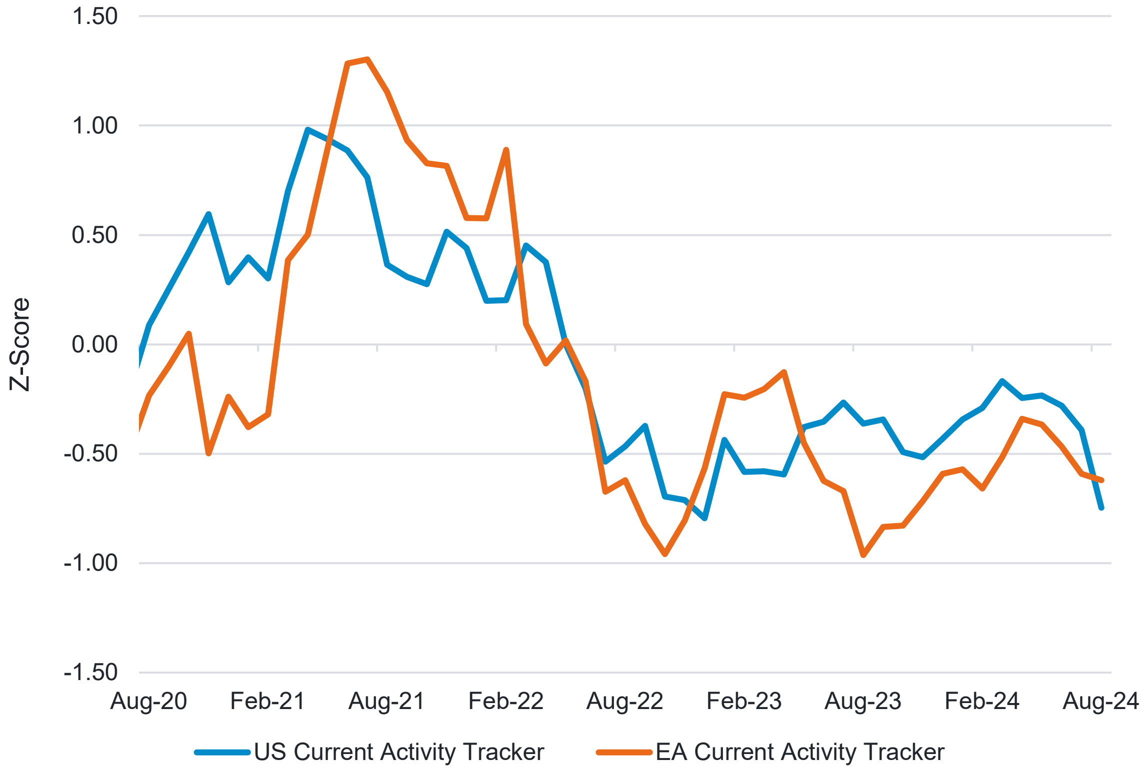


Source: Fidelity International, Macrobond, BLS, September 2024.

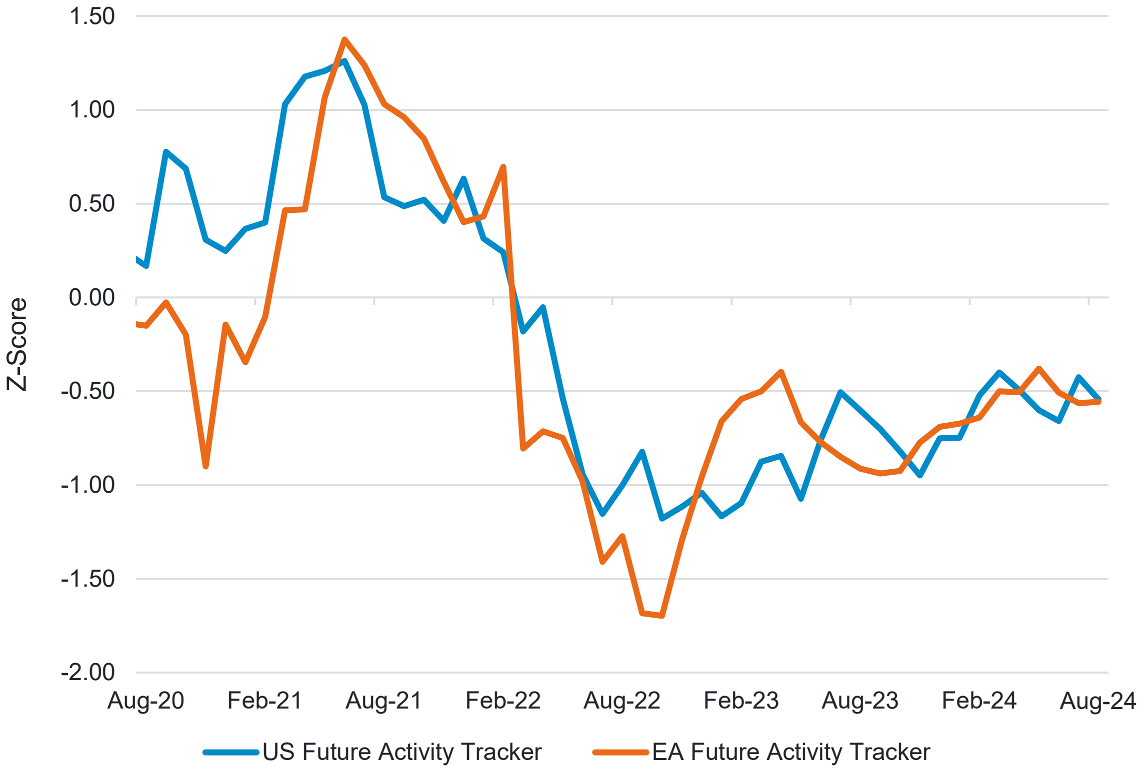
Regional activity trackers

Our US and euro area (EA) current activity trackers indicate further weakness in August. However, future activity signals appear more encouraging indicating an improving trend

Current activity trackers



Future activity trackers

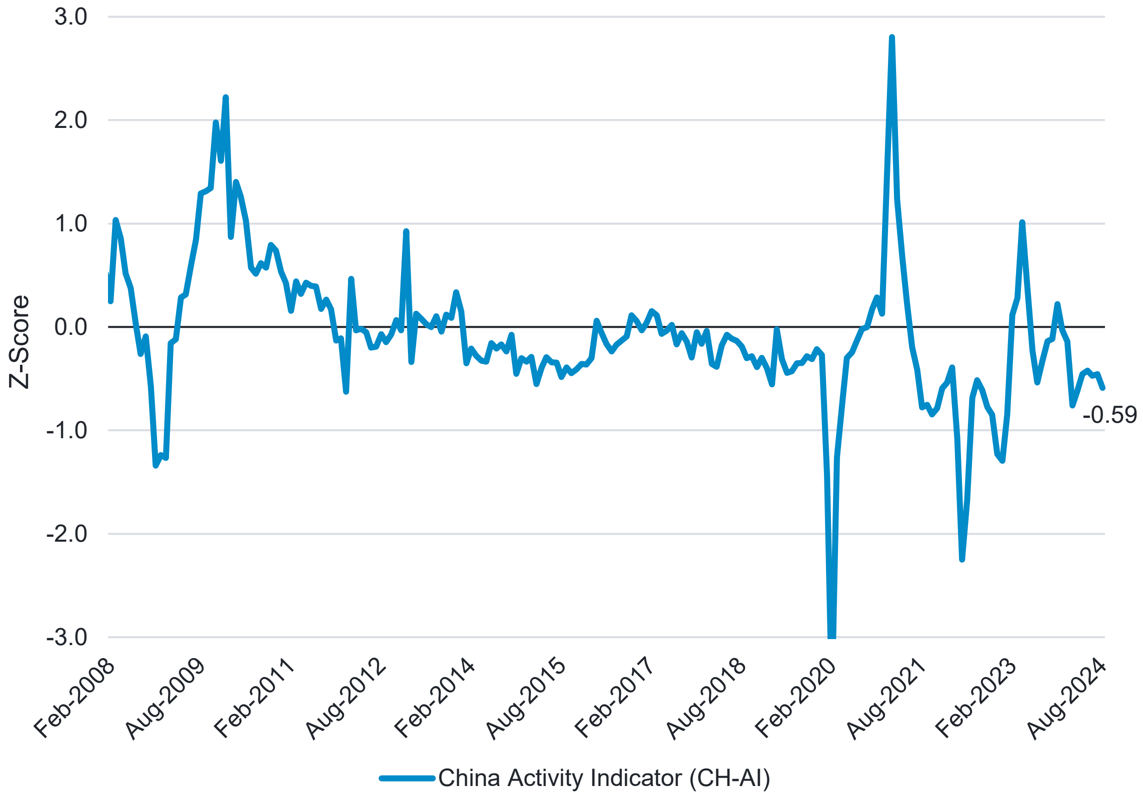


Source: Fidelity International, FIL Global Macro Team calculations, Haver Analytics, September 2024.

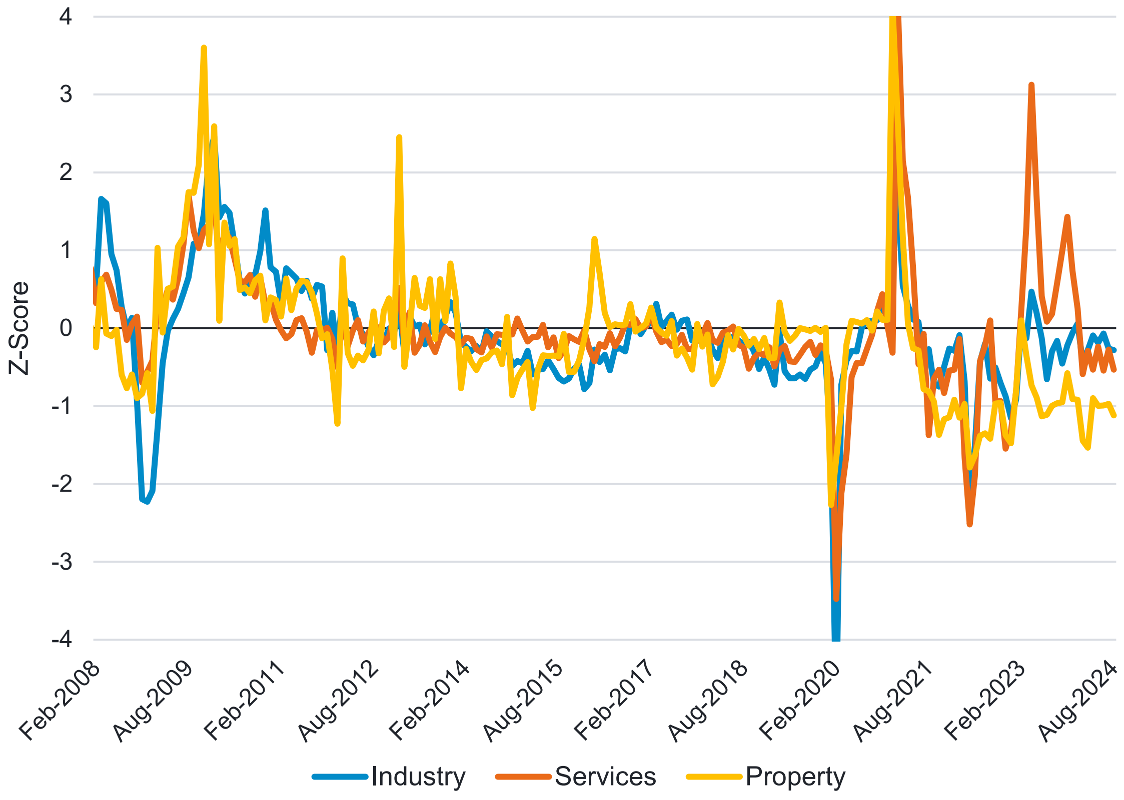
China activity tracker deteriorates further in August, indicating below target growth

Weakness is driven by a subdued property sector and choppy services sector. Industrials still support growth

China activity indicator (CH-AI)



China activity indicator (CH-AI) by sector



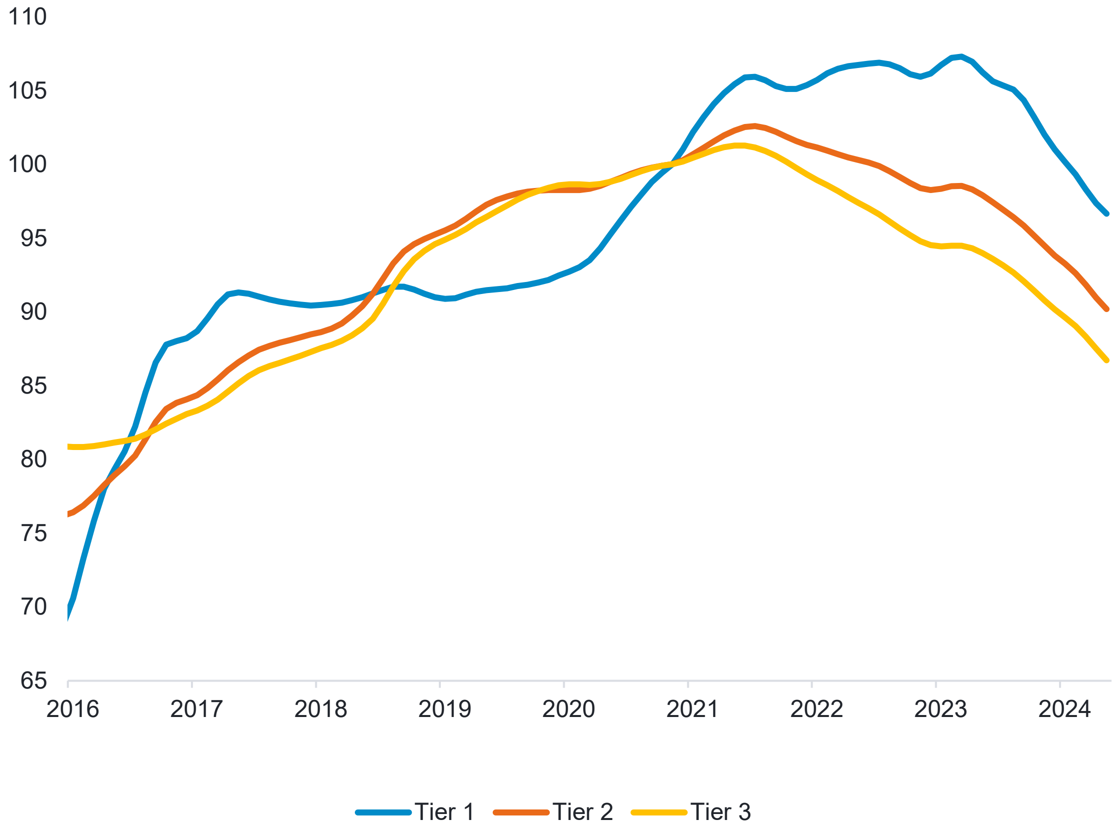
Note: Our May print is a flash estimate which is based on projecting some indicators that are yet to be released for the mont h

Source: Fidelity International, FIL Global Macro Team calculations, Bloomberg, Haver Analytics, Wind, September 2024.

Property sector has not reacted strongly to policy easing

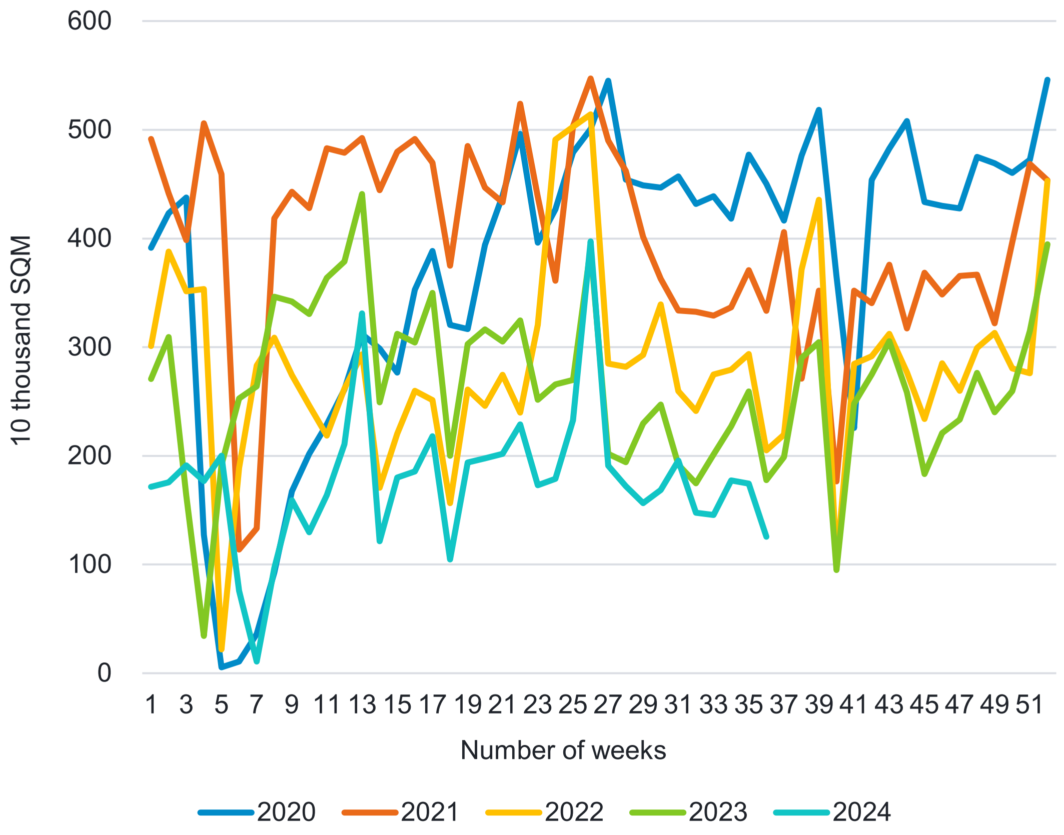
Incremental moves have not stabilised the property sector yet

70-city new home prices (Jan 2021=100)



Source: Fidelity International, Bloomberg, September 2024

30-city property transactions volume



Source: Fidelity International, Wind, September 2024

Three scenarios for China in 2024

	Growth	Inflation	Monetary policy	Fiscal policy
Scenario 1: **Controlled stabilisation** 55% (65%)	The pace of recovery gradually gains momentum as consumption improves. Property sector stabilises on stronger stimulus. Industrial activities remain resilient as developed markets slow gradually. Real GDP growth stabilises around the government's target.	CPI and PPI rebound softly on the back of a gradual recovery in domestic demand. Inflation stabilises slightly below target over the medium term.	The People's Bank of China (PBoC) cuts rates marginally to support growth. It also manages liquidity by buying and selling government bonds in the secondary market as medium-term lending facility (MLF) operations fade.	Policymakers accelerate the fiscal easing by issuing bonds to fund infrastructure projects. It will continue with gradual de-risking plans to resolve structural issues in local government, property, and banking sectors.
Scenario 2: **Serious slowdown** 35% (25%)	The economy faces stronger headwinds from domestic structural issues and a developed market slowdown. Potentially rising geopolitical tensions (such as steep tariffs increase on Chinese exports) could be another major shock to growth and may lead to severe slowdown in the broader economy.	Both Consumer Price Index (CPI) and Purchasing Price Index (PPI) gradually fall into deflation well below government targets.	The PBoC delivers limited or no rate cuts as it priorities currency stability over domestic easing.	Policymakers are slow to introduce sufficient fiscal support for growth due to limited fiscal policy room and rigid fiscal framework.
Scenario 3: **Reflation** 10%	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.	Both CPI and PPI recover and gain momentum with strong domestic demand rebounding to match or beat the government target.	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.	Policymakers explicitly bail out stressed local governments and property sector companies, leading to renewed optimism in re-leveraging. They also aggressively expand fiscal deficits to support domestic demand.

Note: The numbers in the brackets represent previous probabilities.
Source: Fidelity International, September 2024.

Multi Asset: Our best ideas

	Tilting towards Value	Structural Themes	Defence	Carry	Alternatives
Scenario 1: **Soft landing** 55%	+ Global Mid-caps ++ Select Equities (UK, Italy, Greece, Indonesia, S Korea, Singapore)	++ AI/Semiconductors ++ Biotech/Healthcare ++ Grid Upgrade + Climate Solutions + Robotics/Factory Automation	+ Min Vol Equities	++ EM LC bonds ++ Hybrids + Credit + FX carry	+ Liquid Alts + REITs
Scenario 2: **Cyclical recession** 30%	-- US Small-Caps	+ Healthcare	++ Put Options + Government Bonds -- Equities	+ USD Cash ++ Short Duration Credit -- High Yield Bonds	++ Absolute Return ++ Dispersion + Gold
Scenario 3: **No landing** 10%	++ Global Mid-Caps + Japanese Equities FX Hedged + EM Equities - US Mega-Caps/ Growth / Momentum	+ Future Financials + Transition Materials / Copper Miners	+ Cyclical Equities -- Bond Proxies - Government Bonds	+ Dividend Futures ++ Leveraged Loans - Investment Grade	++ Absolute Returns + Commodities
Scenario 4: **Stagflation** 5%	+ Gold miners -- US Small-Caps - US Mega-Caps		++ Put Options + Inflation Linked Bonds -- Equities -- Government Bonds	+ USD Cash + Leveraged loans -- High Yield Bonds	++ Commodities + Absolute Returns + Dispersion

Notes: '+' is a positive view; '-' is negative; reflects our views of relative performance for each scenario.
Source: Fidelity International, September 2024

Important Information

All information is current as at 26 September 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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