

The Age of Empires

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The Age of Empires

Rebuilding in a diverging world

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Important information

- Investors should note that the views expressed may no longer be current and may have already been acted upon. Past performance is not a reliable indicator of future returns.
- The value of investments (and the income from them) can go down as well as up and investors may not get back the amount invested.
- Changes in currency exchange rates may affect the value of investments in overseas markets.
- Investments in emerging markets can be more volatile than in other more developed markets.
- The value of bonds is influenced by movements in interest rates and bond yields. If interest rates and so bond yields rise, bond prices tend to fall, and vice versa. The price of bonds with a longer lifetime until maturity is generally more sensitive to interest rate movements than those with a shorter lifetime to maturity. The risk of default is based on the issuers ability to make interest payments and to repay the loan at maturity. Default risk may therefore vary between government issuers as well as between different corporate issuers. Due to the greater possibility of default, an investment in a corporate bond is generally less secure than an investment in government bonds. Sub-investment grade bonds are considered riskier bonds. They have an increased risk of default which could affect both income and the capital value of an investment.
- Reference to specific securities should not be interpreted as a recommendation to buy or sell these securities and is only included for illustration purposes

Learning objectives



Describe how the big economic cycle can influence a change in the world order

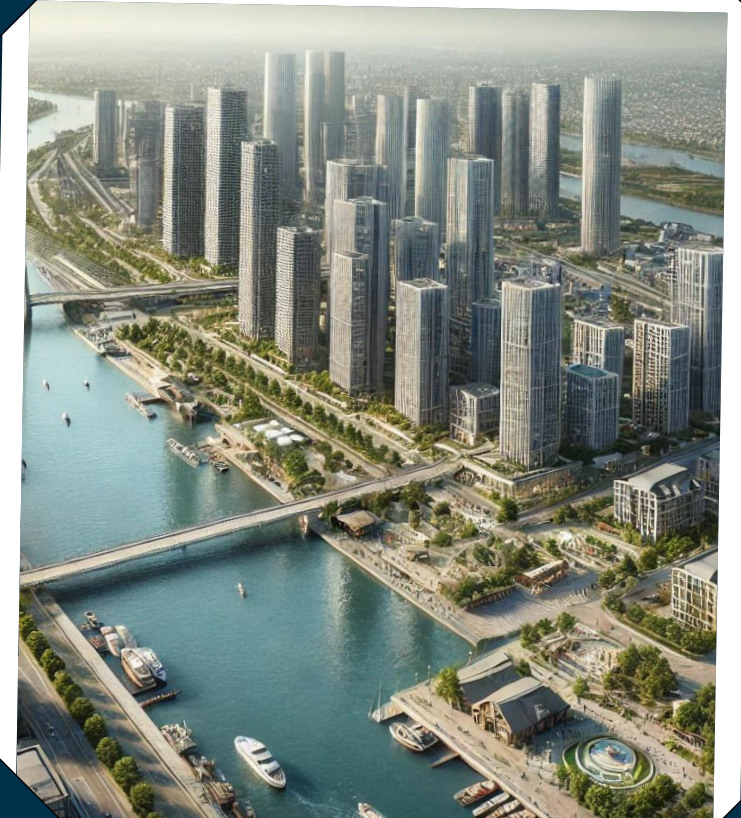


Recognise the opportunities this new world order can create in asset classes including equities and fixed income



Understand the new investment strategies that may enhance a client's portfolio

The Big Cycle



Cycles

Adobe Stock | #161097953

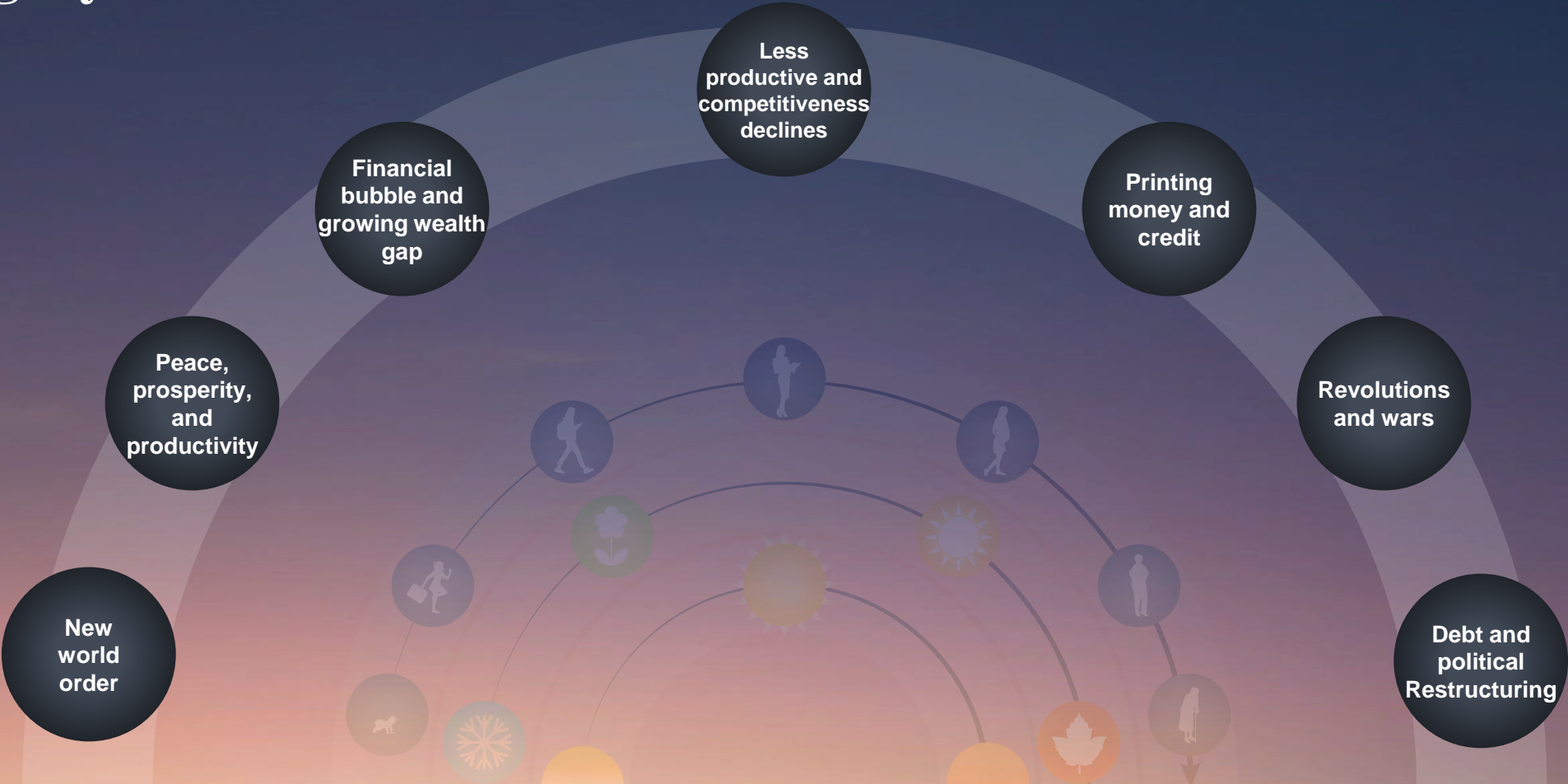


DAY

SEASON

LIFE

The Big Cycle



Cycles in history



New world order

Peace, prosperity, and productivity

Financial bubble and growing wealth gap

Question

When was \$5 trillion lost?



Around \$5 trillion in stock market value was wiped out when the **Nasdaq fell by nearly 78%** from its peak in 2000 to its bottom in 2002.

Incidentally, \$15-20 trillion was lost during The Global Financial Crisis and caused far more economic damage than the Dot-Com Bubble, not only in terms of financial losses but also due to its widespread societal and global economic consequences.

A Diverging World

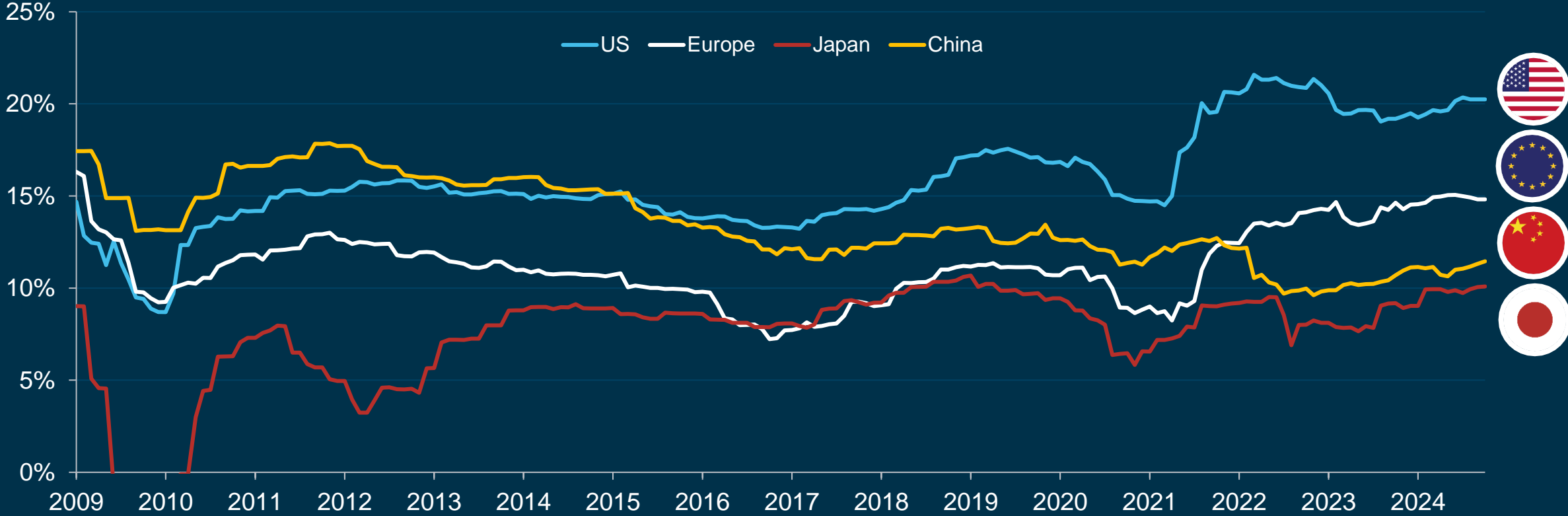


Divergence

Returns of country performance post Global Financial Crisis

US pulled ahead on returns

Return on equity (large caps)



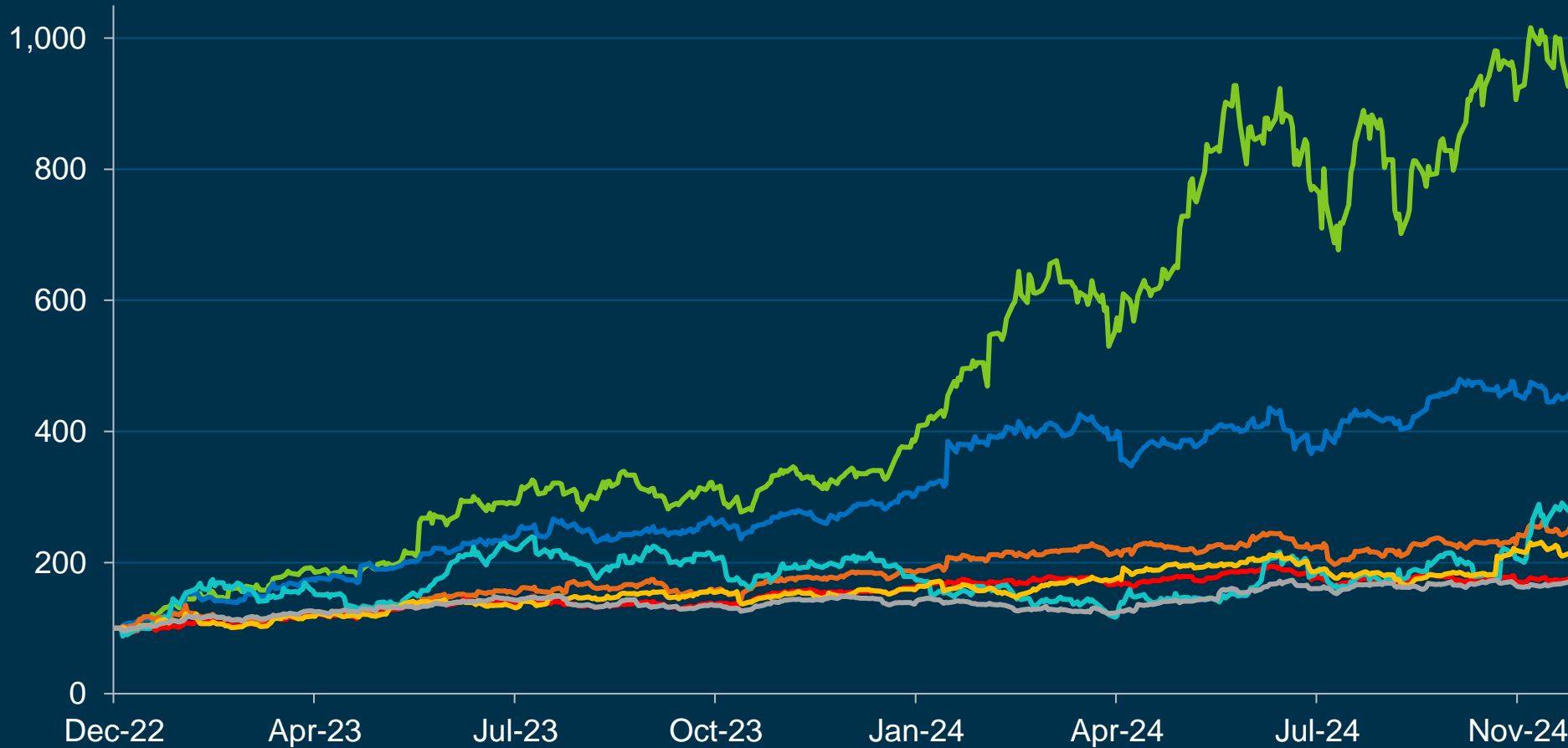
Source: LSEG Datastream, 30 November 2024.

AI

Magnificent Seven – Divergence even amongst the winners



Market value January 2023 – November 2024



- +842% NVIDIA
- +361% Meta
- +185% TESLA
- +155% amazon
- +115% Microsoft
- +76% Alphabet
- +74% Apple

Source: Datastream, as at 15 November 2024. Market values rebased to 100 at 01 January 2023.

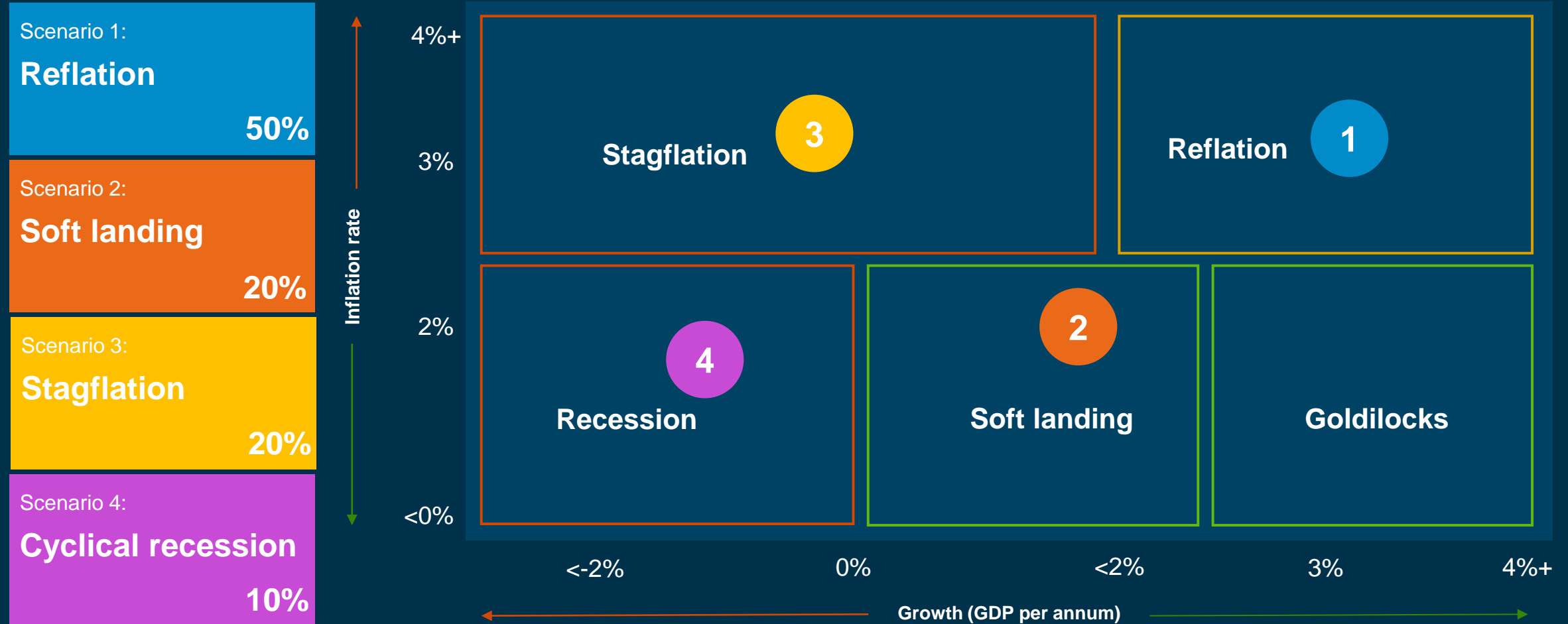
REFERENCE TO SPECIFIC SECURITIES SHOULD NOT BE CONSTRUED AS A RECOMMENDATION TO BUY OR SELL THESE SECURITIES AND IS INCLUDED FOR THE PURPOSES OF ILLUSTRATION ONLY.



Four scenarios for US in 2025



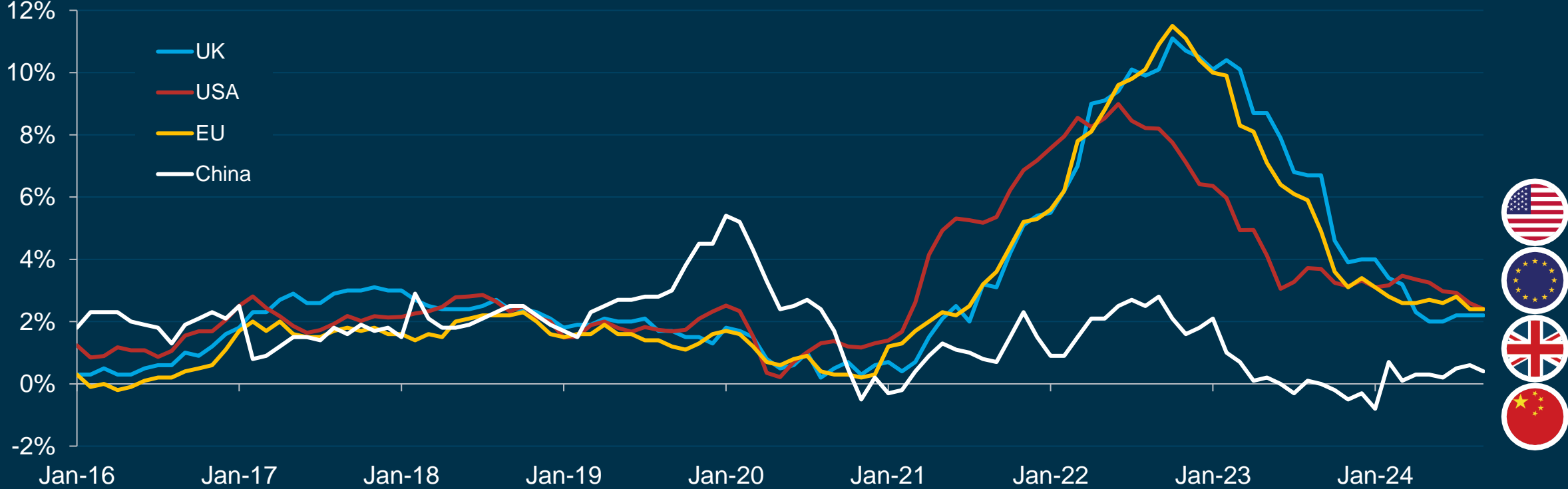
Reflation in 2025



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

Divergence in Inflationary Pressures vs. the West

Consumer price pressures differ considerably
Consumer inflation (YoY)



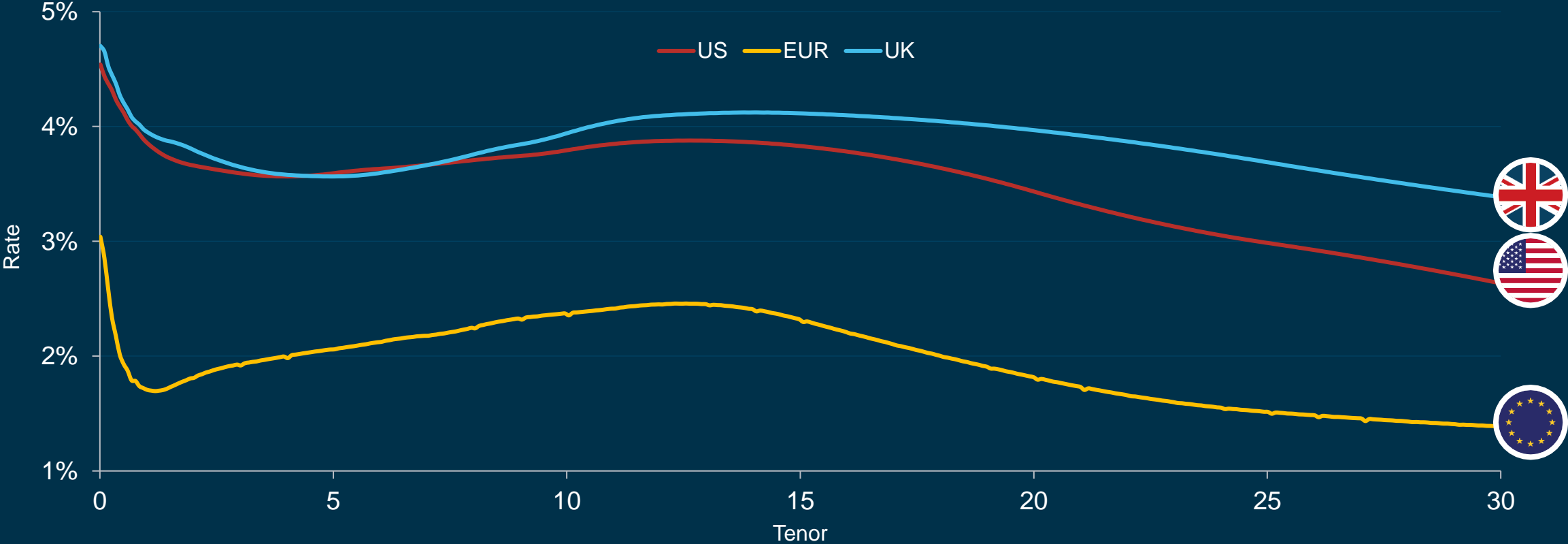
Chinese policymakers have more flexibility but mindful of potential capital outflows if they sharply ease rates

Source: LSEG Datastream, 30 November 2024.

Markets are pricing in global rate cuts with the deepest cuts expected in Europe

But inflation is expected to rise from here before it starts to decline again

Market implied interest rate expectations

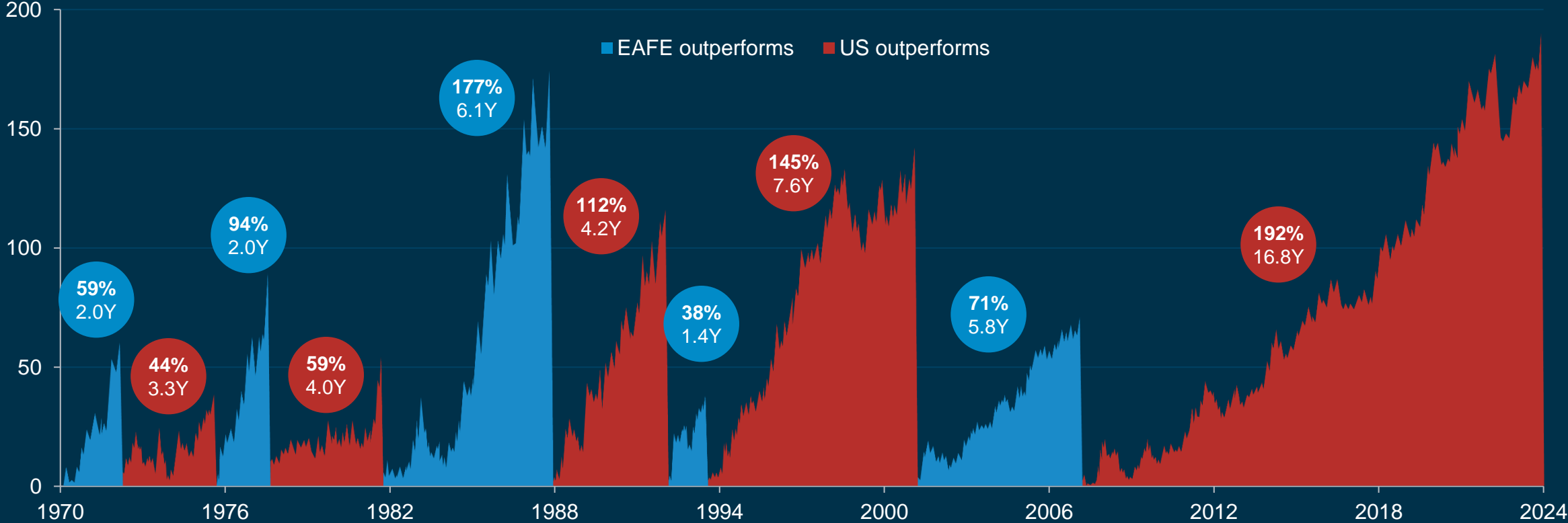


Source: Fidelity International, Bloomberg, 27 November 2024. Interest rate expectations based on overnight indexed swaps.

Some longer-term perspectives

US vs. EAFE regime shifts

Cumulative outperformance (% , geometric)



Source: Bloomberg. The MSCI EAFE Index is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada. Data as at 31 July 2024.

Cycles in history



The New Cycle

**Leaders of
the future**

**Consumers
of tomorrow**

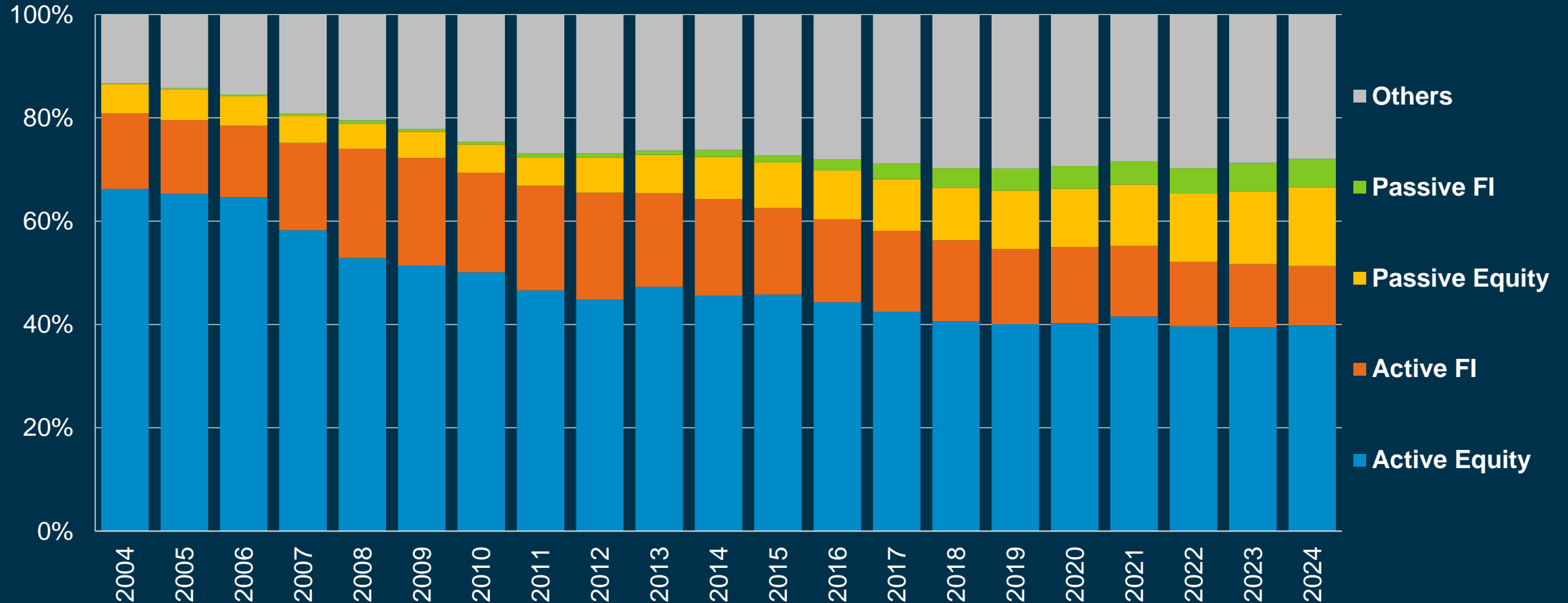
**Unconventional
Assets**

The UK Retail Funds Marketplace

Long term overview of active vs. passive



AuM in Active vs. Passive Funds

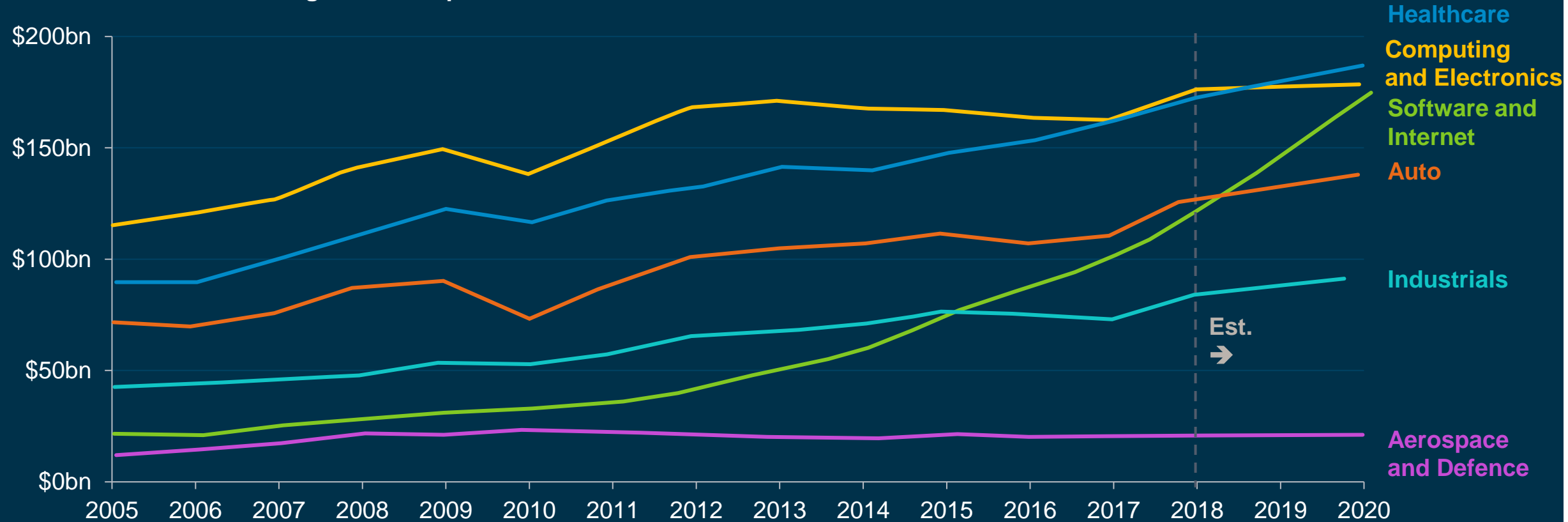


Source: UK Investment Association as at 30 November 2024. "Others" includes AuM in Multi Asset, Money Market, Property and the sectors listed under the "Other" asset class by the IA: Commodities and Natural Resources, Infrastructure, Specialist, Targeted Absolute Return, Unallocated, Unclassified Sector, Volatility Managed

Innovation drives new product cycles

Innovation can be revolutionary or evolutionary

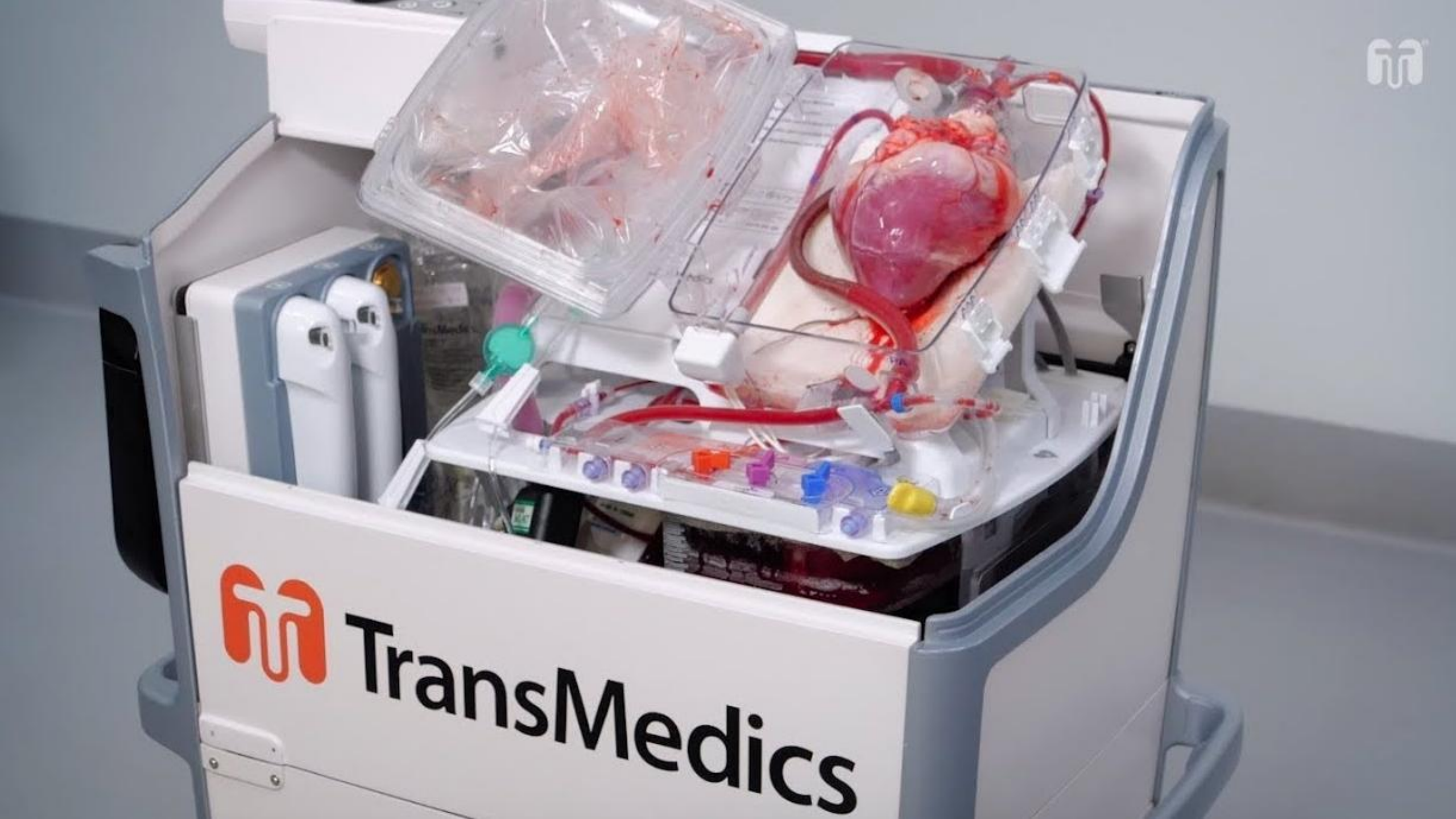
Healthcare is one of the highest R&D spenders in the market



Source: PWC Strategy + business, 2018. What the top innovators get right (strategy-business.com)



TransMedics



Why Global Mid-Caps?

Long-Term Return Opportunity

Long term total returns profile over 25 years

Total Returns (rebased to 100)



For illustrative purpose. Past performance is not a reliable indicator of future performance. The Fund invests in securities of the benchmark, however, management of the Fund is discretionary, therefore the Fund may invest in securities not included in the benchmark, the MSCI Global Mid-Cap (N) Index, and its performance over any period may or may not deviate significantly from that of the benchmark.

Source: LSEG DataStream, 30 November 2024. Indices referenced : MSCI World Large Cap (MSCI World: L) & MSCI World Mid Cap (MSCI World: M), in USD terms

The New Cycle

Leaders of
the future

Consumers
of tomorrow

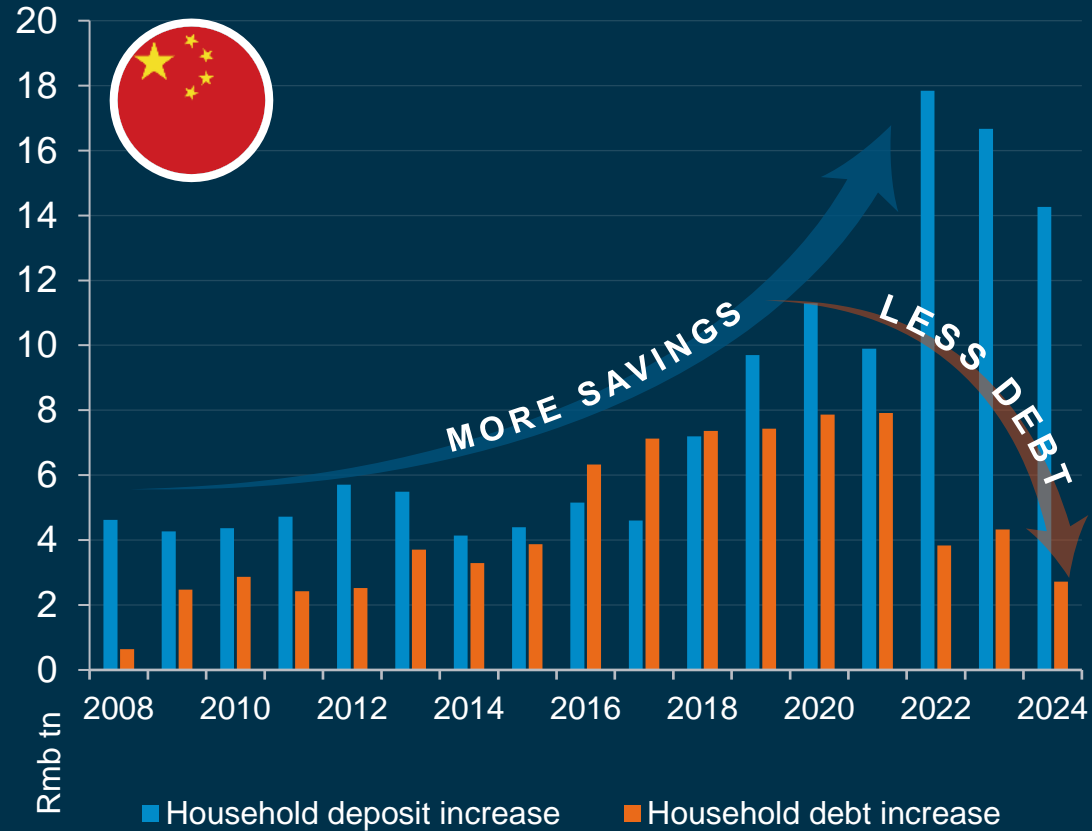
Unconventional
Assets



Deposits rising on the household balance sheet

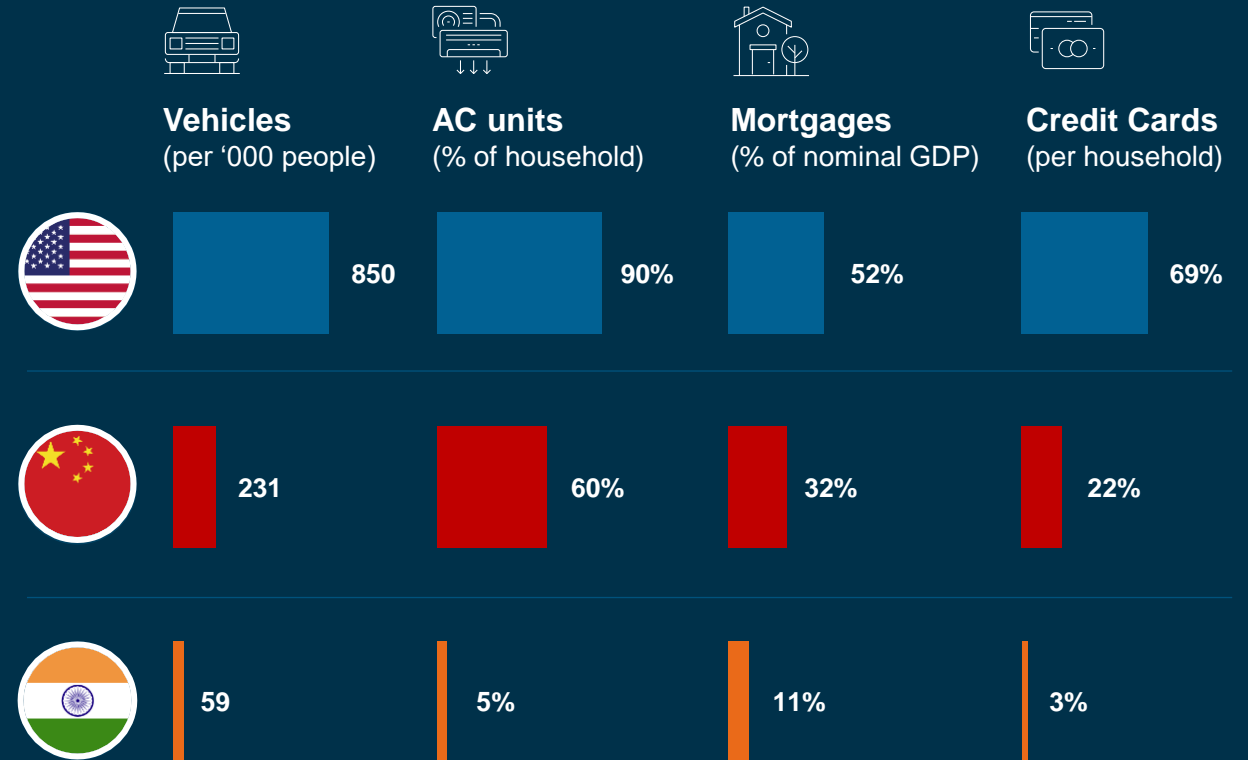
Excess household savings provide ample support for a consumption recovery

Households doubled savings but halved borrowings



Source: Source: CLSA, PBOC, WIND, 31 December 2024

Penetration of products and services



Source: Vehicles excluding 2-wheelers. CEIC, China Ministry of Public Security, Hedges & Company. Data for 2022. International Energy Agency. Data 2018. EMF, Hofinet, HDFC estimates, Wind, China NBS, 2022.

The New Cycle

Leaders of
the future

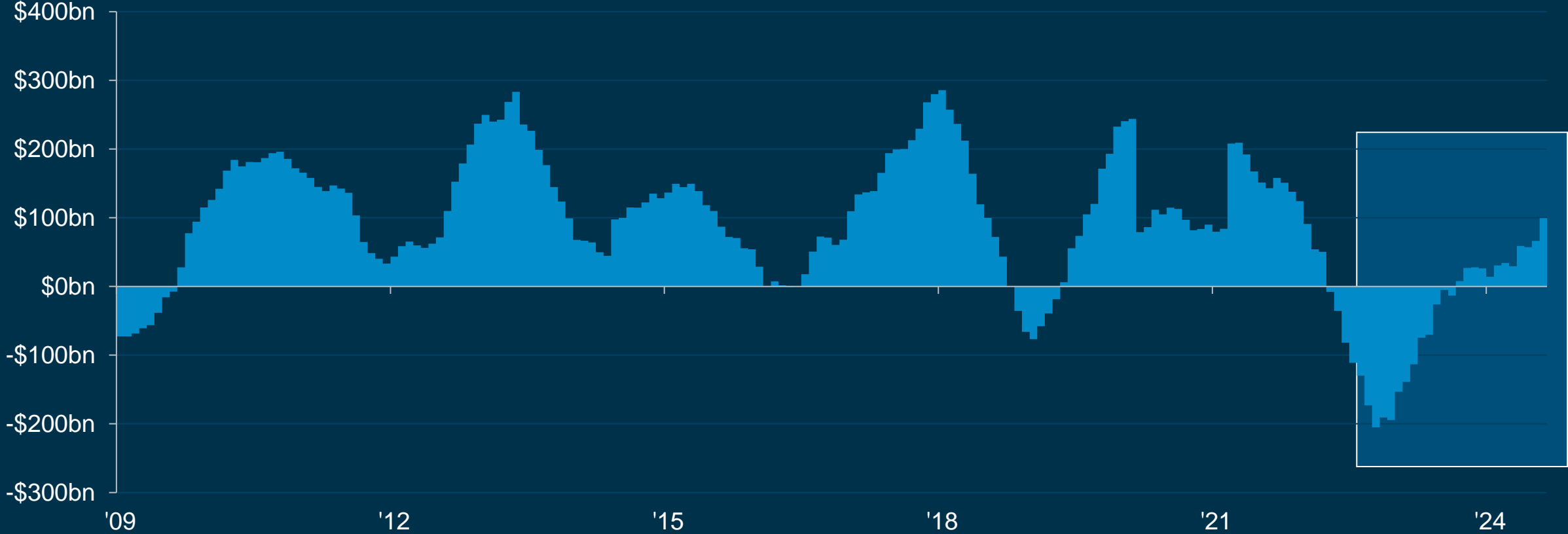
Consumers
of tomorrow

**Unconventional
Assets**

Investor sentiment has been relatively cautious

Positive momentum for bond fund flows

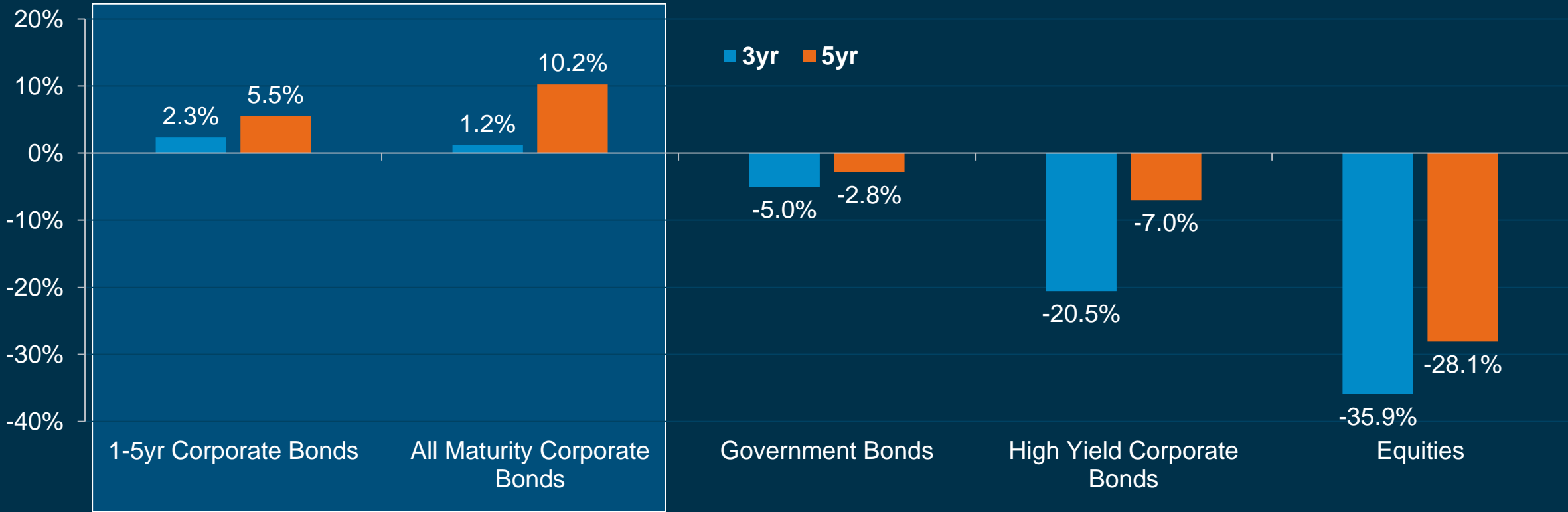
Rolling 12-month bond fund net sales (industry level*)



Source: Fidelity International, Broadridge, September 2024. *Industry level net sales are for cross-border funds, and excludes domestic funds from Europe, Asia-Pacific, Latin America, North America, Middle East and Africa. Bond fund net sales are ex-money market.

Historically, corporate bonds have offered safety amid rate cuts

Worst return over cash from the start of previous Bank of England cutting cycles



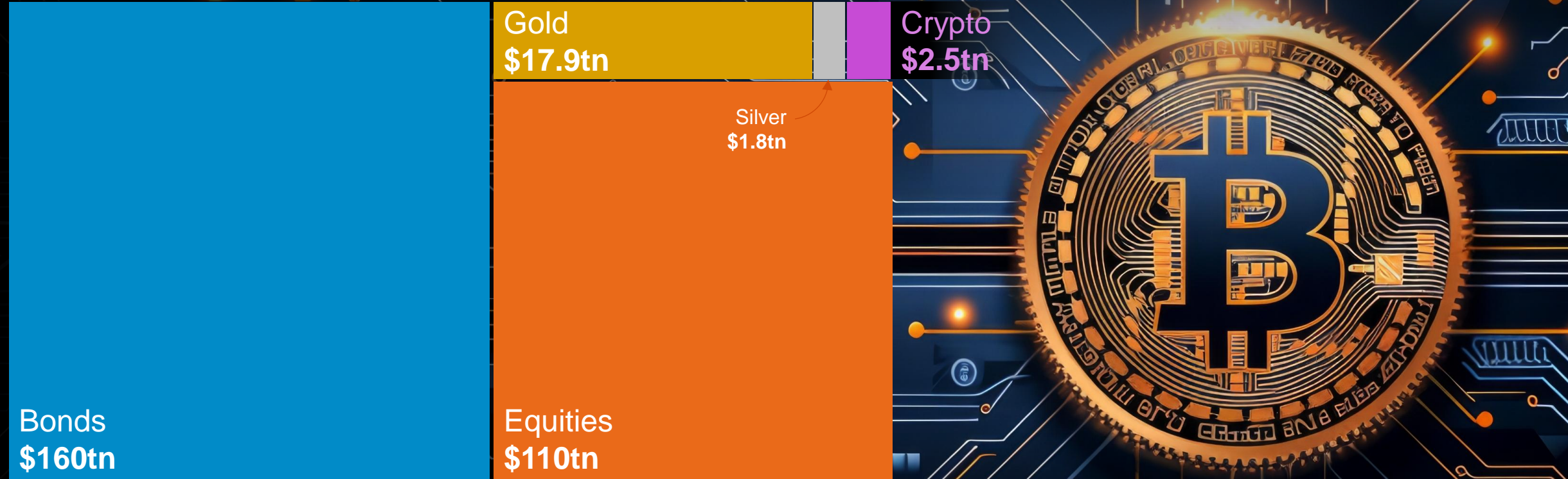
Past performance is not a reliable indicator of future results. Returns may increase or decrease as a result of currency fluctuations.

Source: Fidelity International, Bloomberg, September 2024. 1-5yr Corporate Bonds = ICE BofA 1-5 Year Eurosterling Index; All Maturity Corporate Bonds = ICE BofA Euro-Sterling Index; Government Bonds = ICE BofA UK Gilt Index; High Yield Corporate Bonds = ICE BofA US High Yield Index used for the first cutting cycle, while ICE BofA Global High Yield Index (GBP Hedged) was used for the remaining cycles; Equities = FTSE 100. Cash rate was ICE BofA British Pound 6-Month Deposit Bid Rate Constant Maturity Index for the first cutting cycle and then the ICE BofA Sterling 1-Month Deposit Bid Rate Constant Maturity Index for the remaining 3. Uses 4 Bank of England interest rate cutting cycles between 1995 and 2024, starting in December 1995, October 1998, February 2001 and December 2007 respectively.

The cryptocurrency market

A growing market with Bitcoin dominance

Estimated traditional asset size and Crypto market size
(\$USD Trillion)



Source: Bloomberg (Bonds & Equities), as of May 2024; 8marketcap (Gold & Silver), as of 15 October 2024, CoinGecko (Crypto), as of 31 October 2024*

Key takeaways

- Where we are in the larger cycle may bring new opportunities
- Divergence amongst countries is likely to continue, as will volatility. Consider blending active and passive solutions to add value and diversification to your client portfolios
- Investors looking for the leaders of the future may want to consider an allocation to global mid-caps
- Remember the three key pillars when it comes to fixed income and the potential opportunity in corporate bonds
- New regulations for blockchain technology are positive overall for the space but this asset class is still in its infancy

Learning objectives



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Fidelity funds and solutions...

Fidelity Global Future Leaders Fund

- A clear, structured and repeatable investment process
- Co-PM familiarity with nuances associated with an under-researched asset class
- Good risk/return outcomes expected in a global investment universe

Fidelity Strategic Bond Fund

Mike Riddell has taken over as the Lead Portfolio Manager and we envisage three potential benefits:

- High alpha potential, through a more active, high conviction approach
- Greater portfolio diversification
- Simpler performance measurement

Fidelity Discretionary Model Portfolio Service

- Seven diversified portfolios, expertly run
- Active, timely and decisive portfolio management
- Institutional buying power
- Enhanced reporting insight and reviews
- Tax-efficient wrappers



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