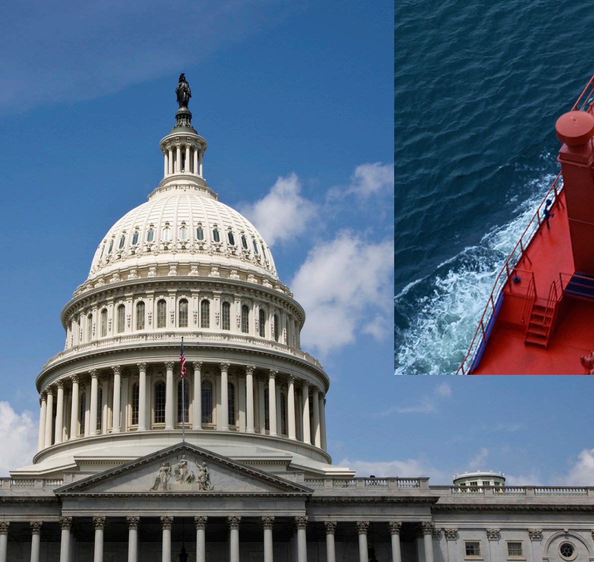
Fidelity INTERNATIONAL



FIDELITY ANALYST SURVEY 2017

FUELLING GROWTH

A report with a difference

This is not your usual 30,000 feet overview of economic conditions drawn from public data and official indicators. Our annual Analyst Survey is a forward-looking assessment of sectors and regions that is rare among investment surveys for being built entirely from the bottom up.

Our analysts conduct 17,000 company meetings throughout the year, talking to CEOs, CFOs and division heads. Their survey provides an aggregate measure of sentiment based on that access as well as a wealth of proprietary analysis of the companies they cover.

In building this picture of what's really going on, we are not swayed by market sentiment which pushes and pulls at company valuations. Instead we focus on the underlying business conditions that determine companies' successes and failures. We take a medium-term view on the companies' ability to evolve and grow, and the hurdles they face.

Our survey's track record

Since launching the survey, our analysts made early (and correct) calls on the divergence between emerging and developing markets as well as between traditional, commodities-focused industries and innovation-driven sectors. We revealed how the disinflationary, low-rate environment was set to continue, keeping a lid on defaults, and fuelling M&A activity and share buy-backs.

In more ways than one, 2016 was an extraordinary year. Our survey was launched into an environment of concern about China's growth, expectations of rising rates in the US, low oil prices, and considerable pressure on banks' stocks and bonds. Yet our global sentiment indicator steadied at the midpoint, indicating corporate fundamentals were stable, and a recession was unlikely. Despite deep concern about the financial sector, our analysts insisted the financial sector was in a good enough shape to withstand market pressures.

However, our report didn't predict the political upheavals of 2016 or the remarkable resilience and even exuberance that followed in the markets. Indeed, this year the survey looks very different. After three years of deteriorating sentiment, there's much more confidence, demand growth is back, and we find signs of reflation, rather than disinflation. A year ago, that would have seemed optimistic; our expectation is that the optimism will continue.

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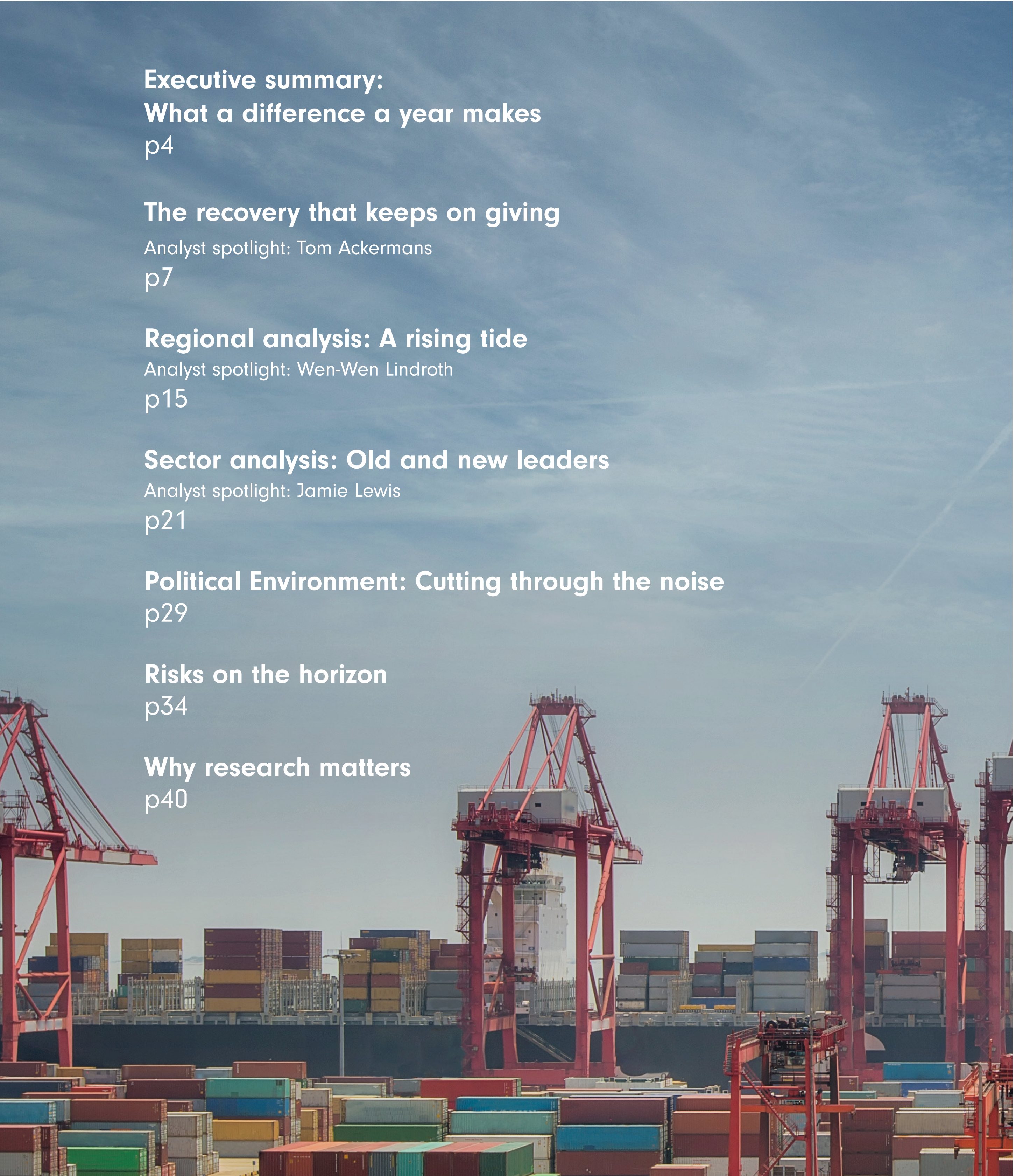

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Executive summary:

What a difference a year makes

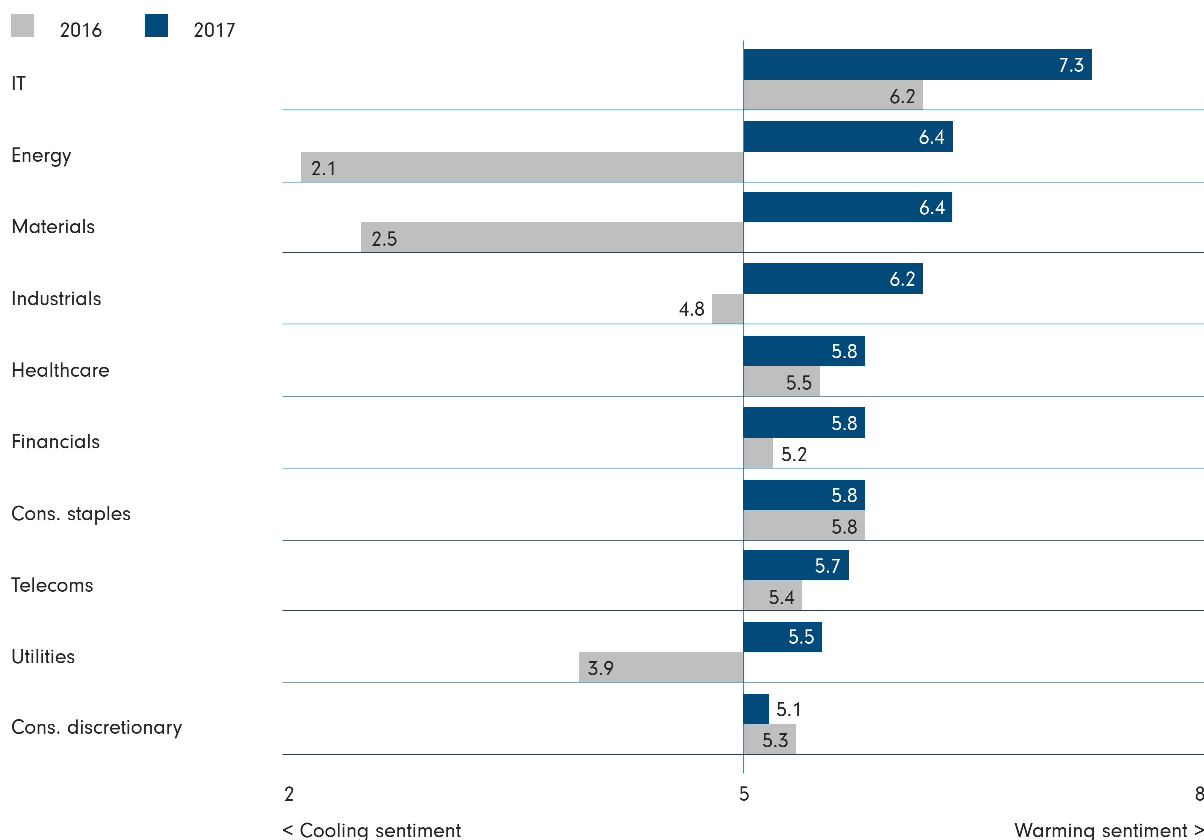
Our annual Analyst Survey reveals a corporate environment that is almost unrecognisable from 2016, marked by renewed corporate confidence in spite of political uncertainty in some key markets.

Company prospects are improving across sectors and regions

Our analyst sentiment indicators show positive corporate conditions in all regions and sectors.

- Management confidence has improved materially, turning from negative last year to positive this year, indeed hitting the highest level since 2014.
- Demand growth is back.
- The prospects for returns on capital have strengthened considerably.
- The long down-cycle in capex appears to have bottomed out, perhaps heralding a recovery in productivity.
- The relative strength of developed markets versus emerging markets continues, but the turnaround in sentiment in the latter is remarkable, driven by the recovery in energy, materials, utilities and industrials.

Global indicator breakdown, 2-yr sector comparison

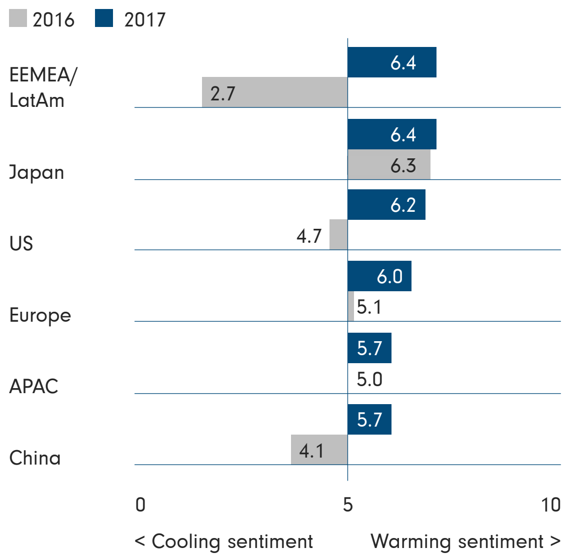


Source: Fidelity International, February 2017

Our overall sentiment scores are based on an aggregate of five key indicators that capture the overall analyst view on the companies within their sectors.

The responses are weighted on a scale of 1-10 (with 10 the most positive) and aggregated on the basis of the market cap of the relevant sector. The result is an indicator that is best used as a comparative tool rather than an absolute value.

Global indicator breakdown, 2-yr regional comparison



Source: Fidelity International, February 2017

Inflationary expectations are slowly rising, but leverage is contained

Not surprisingly, inflation expectations seem to be edging up, albeit very modestly, and cost pressures are affecting some sectors.

- But leverage is not seen as an issue; balance sheets are robust and very few analysts expect rising default rates.
- Rising leverage in the US is mainly due to shareholder-friendly activities, not operational weakness.

Disruption is on the rise

Change to business models is everywhere, creating winners and losers in the process.

- Disruption scores are up on 2016.
- IT spending is rising across all sectors.
- Major transformations are happening within sectors, affecting IT, consumer discretionary, telecoms, and utilities most.
- With technological innovation spreading and deepening in all sectors, IT comes out strongest, despite itself being disrupted.

Political uncertainty has little impact on strategic planning

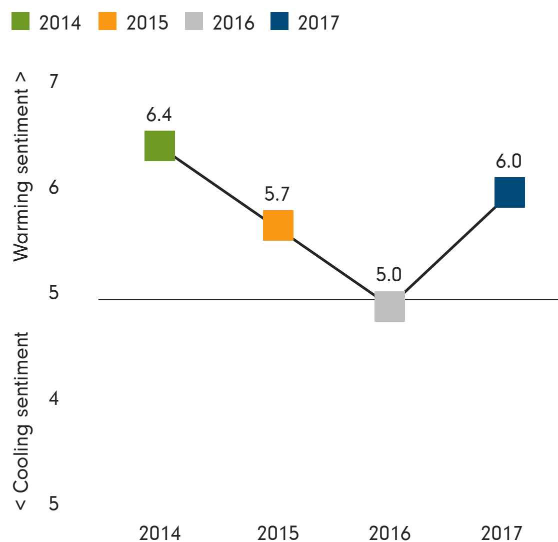
Perhaps surprisingly, analysts generally do not see significant impact from political risk.

- There is little sign of uncertainty weighing on strategic investment decisions despite US policies, European elections, Eurozone cohesion or geopolitics.
- Brexit, however, is weighing on companies' willingness to invest in the UK, and protectionism is viewed with suspicion everywhere, including in the US.

Risks remain

- Disappointing economic growth and demand, especially in China, could change the outlook for companies.
- Larger-than-expected oil supply growth or demand weakness could lead to renewed oil price falls, undermining corporate conditions for energy and related sectors.
- Tighter monetary policy in response to inflation could hasten the turn of the economic cycle.

Global analyst sentiment indicator



Source: Fidelity International, February 2017

1

The recovery that keeps on giving

Analysts are significantly more optimistic than last year

Corporate fundamentals are now seen to be improving everywhere – in all regions and sectors.

When we wrote our report last year, we were reasonably optimistic that the world economy would avoid going into recession. But it seemed a close call. Markets were jittery, energy and financial stocks were sliding and concerns about China had been mounting. Our analysts were divided on corporate health, as pessimism about 'old economy' sectors like materials and mining was balanced by optimism on 'innovation' sectors like healthcare and IT.

Since our last survey, political changes have taken much of the world on a new path. Our survey was conducted after the US election, but before President Donald Trump's policy measures were confirmed or implemented. It looks forward to what's in store for companies throughout 2017.

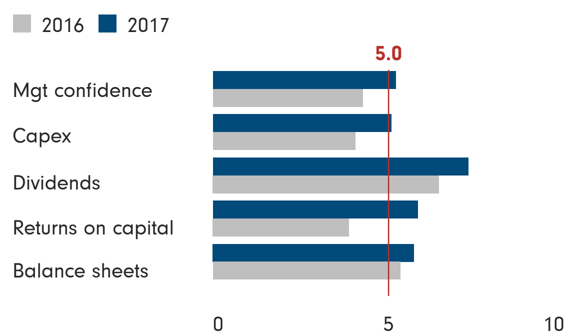
Encouragingly, our analysts are much more optimistic about 2017 than they were for 2016. With the oil price lows now behind us, oil-price sensitive sectors and regions are bouncing back strongly from last year's lows. This, combined with evidence of modest demand growth and continued innovation across sectors, is driving higher levels of investment and activity, which has also been reflected in firmer macroeconomic data.

As a result, corporate fundamentals are now seen to be improving everywhere - in all regions and sectors. Our global sentiment indicator, which is based on five key components of corporate health, has moved firmly back into 'warming' territory, indicating more analysts expect conditions to improve over the coming year than to deteriorate.

Cyclical forces are picking up strength, but disruption is everywhere

Not only that, but all five of our global sentiment indicator's components have recovered to levels above 5 (with returns on capital improving most), indicating more analysts are positive than negative on the outlook for this year. This contrasts with 2016, when returns on capital, management confidence and capital spending were all seen to be declining globally and the indicator was only propped up by dividend and balance sheet resilience.

All analyst sentiment indicator components have strengthened on 2016

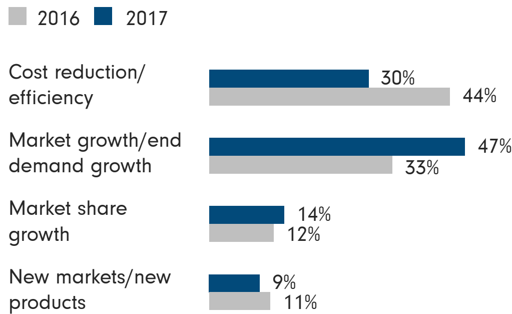


Source: Fidelity International, February 2017

Our survey also points to growing cyclical momentum. Rising returns on capital are primarily attributed to increasing demand, a notable change from 2016 when they were mostly attributed to pricing power and cost efficiencies.

Demand growth is now the largest driver of earnings growth

What do the CEOs in your sector see as the main source of earnings growth for their companies?



Source: Fidelity International, February 2017

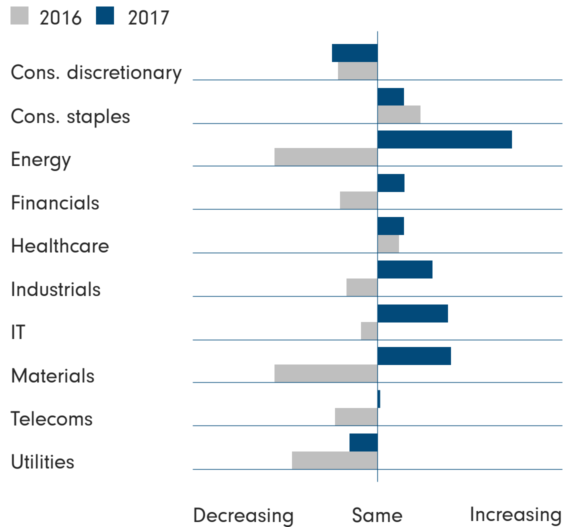
Equally, analysts say chief executive officers regard demand-led growth as the main driver of earnings growth for their companies, whereas last year they were looking to cost efficiencies. The greater confidence of management teams in end-demand growth is a very positive finding of this year's survey.

'The greater confidence in end-demand growth is a very positive finding of this year's survey.'

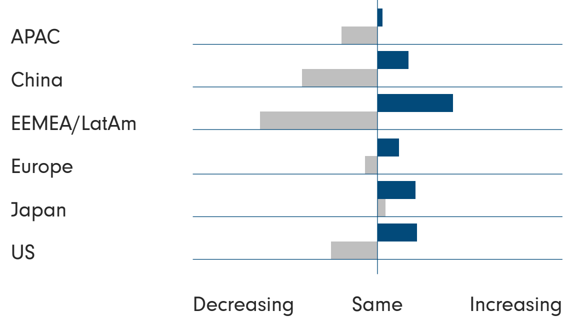
Returns on capital are seen recovering

What is the outlook for overall returns on capital in your sector for the next 12 months versus the last 12 months?

Sector view



Regional view



Source: Fidelity International, February 2017

Yet the survey also points to an impact from secular trends. While consumer discretionary companies usually benefit from any cyclical upswing, the sector is lagging in our survey because of changing consumer behaviours and rapid disruption (for example, from offline to online) which are depressing profits at many retail firms. IT, on the other hand, is booming not only because of improving cyclical demand but also because of increasing sophistication of supply and production chains in all sectors, requiring growing technological investment. While certain consumer markets such as smartphones are relatively mature, there is still considerable scope for IT to penetrate other sectors such as industry and agriculture.

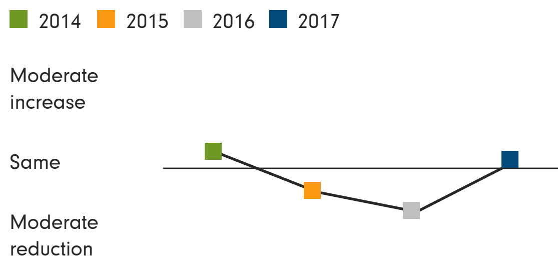
Is the bottom of the capex cycle in sight?

As a global recovery takes hold, could it be that we have reached the bottom of the capital spending cycle? Our survey certainly suggests it may be. For the first time in three years, the balance of our analysts is positive on capex, with a slightly growing emphasis on growth rather than maintenance spending. At the margin, China analysts see capex spending falling further, but this is to be expected in an economy that is transitioning from investment and export-led growth to a consumer-led model.

Low investment spending in the past has contributed to low productivity growth, which in turn has depressed economies' potential growth rates, demand, inflation, interest rates and yields in what is often termed 'secular stagnation'. A recovery in capital spending could encourage innovation and productivity growth, making this observation particularly encouraging. The energy, materials, and industrial sectors are the leaders of this recovery in capex sentiment, indicating much of it may be a cyclical recovery which is related to the oil price.

Global capex could be bottoming out

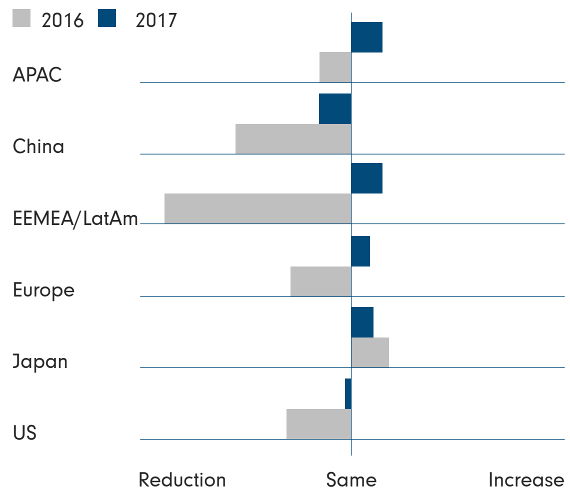
How do organic capex plans for your companies over the next 12 months vary versus the last 12 months?



Source: Fidelity International, February 2017

Analyst sentiment is turning positive on capex, except in China

How do organic capex plans for your companies over the next 12 months vary versus the last 12 months?

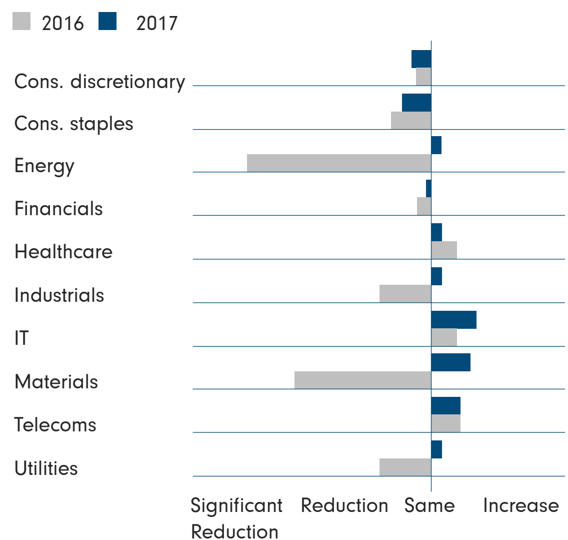


Source: Fidelity International, February 2017

However, there are some secular changes, with more than half of our IT analysts also expecting rising investment within the technology industry, reflecting the sector's crucial position at a time of disruptive innovation and thin margins.

'Old economy' sectors are no longer slashing investment

How do organic capex plans for your companies over the next 12 months vary versus the last 12 months?



Source: Fidelity International, February 2017

We see the same positive trends coming through in our analysts' numerical forecasts, too. Every month, we aggregate their forecasts for individual companies' key corporate indicators into regional and global figures, which cover a rolling three-year period. This proprietary Global Aggregates data, built from the firm-level up, shows that the days of drastic capital spending cuts may now be over, with growing spending in the US in particular, setting up a potential recovery in productivity.

Analysts expect rising US investment in 2017/18, led by energy

Global Aggregates capex growth estimates for US sectors (USD)

	2016	2017	2018
Cons. discretionary	**18.4%**	**2.4%**	**4.8%**
Cons. staples	**9.4%**	**-2.8%**	**0.3%**
Energy	**- 37.5%**	**9.7%**	**12.6%**
Financials	**n/a**	**n/a**	**n/a**
Healthcare	**7.1%**	**19.2%**	**-10.6%**
Industrials	**2.0%**	**-0.6%**	**3.8%**
IT	**14.9%**	**12.7%**	**5.8%**
Materials	**-15.4%**	**-10.6%**	**-1.3%**
Real Estate	**n/a**	**n/a**	**n/a**
Telecoms	**0.2%**	**1.9%**	**4.0%**
Utilities	**22.3%**	**- 9.0%**	**-3.3%**
US	**-5.1%**	**4.5%**	**4.3%**

Source: Fidelity International, February 2017

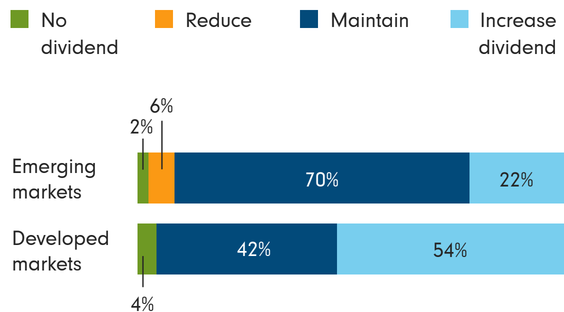
Shareholders to benefit further

The strong corporate focus on shareholder-friendly activities that we have seen in recent years shows little sign of abating. Indeed, with increasing demand growth and rising returns on capital, it is not surprising that a majority of developed markets analysts are expecting further dividend growth, while emerging markets analysts are leaning towards stable dividends. Remarkably, not a single developed markets analyst predicts dividend cuts for their sector as a whole.

A majority of analysts everywhere see continuing M&A activity. Demand growth, recovering returns and dividend confidence, in combination with contained funding costs, also make it likely that share buy-back programmes will remain popular, particularly in the US.

Dividend strength continues

What is the likely dividend payment to final investors (in absolute terms) of your companies in the next 12 months?



Source: Fidelity International, February 2017

'Remarkably, not a single developed markets analyst predicts dividend cuts for their sector as a whole.'

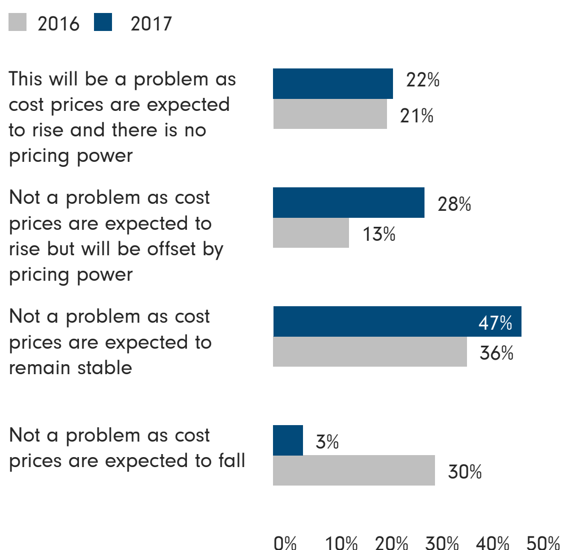
Inflationary signals strengthen, but only by a little

Roughly half of developed market analysts think their sectors are in mature stages of expansion. Traditionally, this would be a time of rising pricing pressures and stretched balance sheets, but our analysts see only limited evidence of such trends.

The number of analysts who see rising cost prices has grown; from one third last year they now make up half of all analysts. This trend is strongest in industrials, energy, consumer staples and utilities, and among the regions, in the US and China. In industrials and consumer staples, a third of analysts warn that rising cost prices will eat into profit margins. But overall, most analysts who expect rising cost prices think these will be contained by pricing power, especially in the US – although this could mean the burden on the consumer increases, an important signal for policymakers.

Pricing power offsets increasing cost prices

To what extent will input cost inflation be a problem for your companies over the next 24 months versus the last 24 months?



Source: Fidelity International, February 2017

A similar picture characterises the outlook for wages, which are generally seen as stable (35%) or increasing moderately (59%). This shows a modest inflationary shift compared to last year, when some analysts were even predicting wage cuts in their sectors. This trend is evident in all regions except China, where expectations for wage inflation have eased from last year. US analysts are most likely to see wage price inflation. Similarly, a majority of analysts by sector expect wage growth for the companies they cover, except in financials and utilities. Interestingly, fewer IT and healthcare analysts see strong wage growth than last year.

Few signs of balance sheet pressure building

Despite much talk about growing global debt, corporates generally remain in reasonable or good financial health and analysts foresee little change to this in 2017. Fewer than one in five analysts see leverage rising; in fact, more analysts see it falling (39%).

Most analysts now say their companies have prudent balance sheets. Where they were seen as particularly stretched last year (emerging markets, energy, materials, utilities), they are now predominantly regarded as about right. Overall, funding costs are seen as stable, except in the US where a third of analysts think they could drift up a little. And only one in ten global analysts now expects rising default rates - down from almost one in four last year.

Overall, our survey this year points to renewed momentum for companies world-wide, with pockets of improving demand. But it also highlights strong secular trends that are causing major disruption in a number of sectors. As the recovery matures, it is not surprising that inflationary signals are strengthening, yet relatively few analysts are concerned about funding pressures or balance sheet tensions.

‘Despite much talk about growing global debt, companies generally remain in reasonable or good financial health.’

Oil inventories: A sleuth's tale

Perhaps the most prominent feature of our survey this year has been the cyclical acceleration evident across almost all sectors. While President Trump's proposals have certainly boosted growth sentiment, the recovery in the oil price has been a critical driver of improving fundamentals. Our analysts turned positive on the oil sector in February 2016. Here, we reveal how they developed a more positive view than the market thanks to a deep dive analysis of global oil inventories.

"While most of the market was focussed on continued increases in US oil production, we developed a more positive outlook via a 'deep dive' analysis of the drivers of global oil demand and supply, especially global oil inventories. Our work suggested that the industry was likely to move towards equilibrium more quickly than the market was anticipating.

"Many analysts focused heavily on the developments in the US, but perhaps did not appreciate the magnitude of the changes taking place elsewhere in the world. As a result of investment cutbacks, drilling activity declined significantly across the globe, and high-cost fields were shut down, leading to material reductions in production in several countries.

"Meanwhile, consumers benefited from lower prices, which led to a significant boost in demand in both 2015 and 2016. As the year progressed, our confidence in this 'market rebalancing' thesis increased, in particular from the middle of the year onwards, when global oil inventories started to reduce.

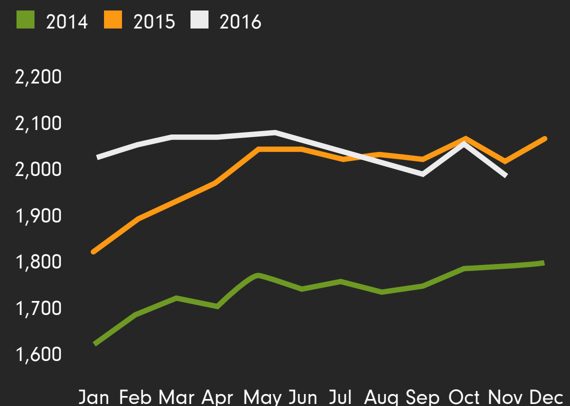
"With the decline in global inventories likely to accelerate as a result of the OPEC cuts, oil market fundamentals are likely to improve further in the first half of 2017.

"With the decline in global inventories likely to accelerate as a result of the OPEC cuts, oil market fundamentals are likely to improve further in the first half of 2017."

Tom Ackermans
— Equity Research Analyst, European Energy

"The acceleration in energy capital spending is almost entirely driven by US shale oil and gas industries. In the rest of the world, budgets for capital spending are more or less flat for this year. We continue to prefer US and European companies over emerging market energy names, many of which are still suffering from balance sheet stress."

Global oil inventories are now falling
(Million barrels)



Source: IEA, EIA, JODI, Bloomberg, Fidelity International, February 2017

2

Regional analysis:

A rising tide

A marked turnaround in sentiment

The global cyclical acceleration evident in our survey is a rising tide that lifts all boats. In a significant change from last year, all regions score positively on our sentiment indicator, indicating corporate conditions are strengthening everywhere.

Emerging markets

The largest improvements in our sentiment indicator scores are seen in the Eastern Europe, Middle East, Africa and Latin America region (EEMEA/LatAm), and in China. In fact, the EEMEA/LatAm score was the highest for this region in our indicator's four-year history, while China's sentiment indicator recovered to a level last seen in 2014.

EEMEA/Latin America

In our 2016 survey, the record low scores for EEMEA/LatAm were triggered by the far-reaching effects of a slump in commodity prices and the consequent slowdown in related industries such as materials and industrials. This, combined with a precarious outlook for global growth, revealed a picture of depressed corporate fundamentals in these regions. That means the notable rise in scores for EEMEA/LatAm this year is a relative improvement from a low base and it does not mean that our analysts think company fundamentals will be stronger here than elsewhere.

Certainly, the recovery in oil and other commodity prices relieves pressures on these economies, even if a stronger dollar can mean tighter financial conditions for emerging markets.

As a result, our analysts say management confidence, capital spending, and dividend payments are no longer contracting and are in many cases recovering. Contrary to last year, they think the outlook for returns on capital has improved, wages are rising, IT spending is making up for what went unspent last year, leverage is falling and balance sheets are not stretched.

China

After two years of soft readings, our analysts' renewed confidence in China, due to improving capital returns and balance sheet strength in particular, reveals that fears on the ground of a hard landing have receded considerably, despite widespread and growing concerns elsewhere about total debt and the threat of protectionism.

The survey findings confirm that China's economy is rapidly transforming, moving away from export and investment-led growth to a consumption and services-based model. In fact, China analysts are the only ones who expect capital spending to decline in their region, reflecting the shift away from an investment-led model. China is also the region where analysts expect the least expansion in headcount over the next year - this score has fallen materially since 2014. This is another finding which substantiates reports that China is climbing the value chain towards higher-quality growth that embraces higher level of automation. China's policy makers and companies are focussing increasingly on high-tech, high-value-add products and services in manufacturing, robotics, electronics, infrastructure, power-generation and consumer industries.

'Management confidence, capital spending, and dividend payments are no longer contracting in EEMEA/LatAm and in many cases are recovering.'

There are two interesting patterns to developments in China. A rise in returns on capital is largely being driven by the 'new economy', with smaller improvements in the 'old economy' sectors of energy, industrials, and materials. This two-speed improvement is also evident geographically. Coastal provinces are developing flourishing insurance, healthcare, IT, media and consumer industries for local markets, creating skills-based jobs with rising wages, regional knowledge hubs, and consumption centres. These regions are doing better than the rest of the country. Meanwhile, the traditional industrial and commodity centres inland are benefiting from a relatively more favourable global economic outlook and rising commodity prices.

Asia Pacific (ex China and Japan)

Although not quite as impressive as the EEMEA/LatAm recovery, we also saw a material bounce in our sentiment indicator for Asia Pacific (ex China, ex Japan). This is a very diverse region with a host of economies large and small, each with their own individual dynamics. That makes it difficult to generalise but our survey reports an improvement in corporate fundamentals across the region.

Some countries are benefiting from higher commodity prices and the continuing shift out of China of low-cost manufacturing to smaller South-East Asian countries. They are generally sensitive to the global growth cycle (which has been supportive) but some are suffering from dollar strength, which can tighten financial conditions for economies with high dollar borrowings. Our analysts reveal that this leads to a very mixed picture at the corporate level, too. Companies with local cost bases but whose products are priced in dollars (like oil) benefit from a stronger dollar. On the other hand, higher (dollar-denominated) raw material costs eat into profits, financing dollar-denominated debt becomes more expensive, and weaker local currencies can weigh on domestic demand.

India stands out as a key market in the region. It experienced a severe monetary shock in 2016 after the withdrawal of some bank note denominations from the physical money supply. However, this should strengthen the fight against corruption and broaden the tax base. Additionally, India has a long-term sustainable economic growth rate around 6% or 7%, according to our analysts, driven by positive structural growth factors (including a younger population, and greater scope to grow per capita income and investment levels than China).

'Our survey reports an improvement in corporate fundamentals across Asia Pacific.'

Developed markets

Our analysts also see a revival in corporate strength in developed economies. These markets have led the global economy in recent years and our survey finds nothing that points to an imminent reversal, even if the outlook for emerging markets is improving faster (but from a lower base). In both the US and Europe, more analysts than last year are positive on the outlook for management confidence, capital spending, and returns on capital. More than half of all analysts expect dividends to rise.

US

The improvement in management confidence is particularly pronounced in the US. Over half of all analysts see rising confidence and nine out of ten expect stable or higher returns on capital. Only one in five says management confidence is likely to suffer this year. Companies remain keen to grow their businesses through major M&A deals and almost none of our analysts expects dividends to fall. But not all of this growth will be seamless; almost two thirds of US analysts think that disruptive technologies will have a moderate or high impact on their sector. This finding could give investors cause to review the mix of active and passive strategies in their portfolios.

A majority of analysts thinks cost prices will increase (although this will be mostly offset by pricing power) and three quarters see wages picking up.

At the same time, about a third of analysts think leverage is increasing, balance sheets are (modestly) stretched and funding costs will increase, leading to more bond issuance. However, fewer than one in five sees default rates rising, indicating these pressures are likely to remain contained in 2017. As in recent years, additional leverage is generally not due to deteriorating cash flow or earnings but is once again being used to fund shareholder-friendly actions such as M&A, share buybacks and dividend payments. While this can disadvantage bond holders, it's good news for shareholders.

Europe

Europe's turnaround also points to accelerating growth in 2017, but the drivers are not quite as broadly based as in the US. European analysts appear more cautious; whereas half of US analysts see management confidence rising, most European analysts think it will be stable over the year, and neither do they expect as many major M&A deals as their US counterparts.

A not insignificant number (four in ten) expect returns on capital to increase for the companies they cover, led by cost savings and demand growth, but a quarter think they may decline this year mainly due to a lack of pricing power and demand growth. Wages are seen rising moderately, but cost price inflation is less of an issue, and rising leverage or default rates hardly feature at all.

'Almost two thirds of US analysts think that disruptive technologies will have a moderate or high impact on their sector.'

Japan

Japan no longer dominates the sentiment indicator in the way it has done in recent years. This is partly a reflection of the fact that much of the initial benefits from the Abenomics reforms to the corporate sector (new stewardship, corporate governance codes and ROE-based indices) have been realised, meaning that optimism around further improvement has faded.

However, there are signs that monetary, fiscal and corporate reflationary policies are having some effect. Japanese analysts are the most likely to forecast rising capital spending or growing dividend payments, and nine in ten see stable or rising returns on capital, driven by cost efficiencies. Two thirds see rising wages, and more analysts see marketing and IT spending rising than falling. Balance sheets are seen as safe, default rates may fall and more analysts than anywhere expect headcounts to expand - a reflection of improved global growth conditions but perhaps also a result of Abe's attempts to boost female participation in the workforce.

'Japan no longer dominates the sentiment indicator in the way it has done in recent years.'

Sensitivity to economic growth in China is high, and Japan would benefit if China does indeed post healthy growth this year, helping to offset the drag from Japan's aging population. Possibly the biggest risk to Japan's outlook (and to investors) is the yen; sensitivity to currency volatility appears higher than anywhere else except in EEMEA/LatAm.

An unstoppable energy revolution

Although utilities are regarded as a defensive, stable, income-paying sector, our analysts report that disruption will increasingly change the shape of the industry. The sector is on the brink of a major transformational period that will see a growing emphasis on renewables at the expense of fossil fuel energy generation - despite a White House agenda that looks to roll back environmental regulation.

"There has been a lot of focus on President Donald Trump's policy towards renewables given his promises in the thick of the campaign to the fossil fuel industries. We may yet see a withdrawal from the landmark Paris climate accord. Yet that might not matter. While it could slow the renewables growth path marginally, the secular global trajectory has long been set, and it is being fuelled by technological progress.

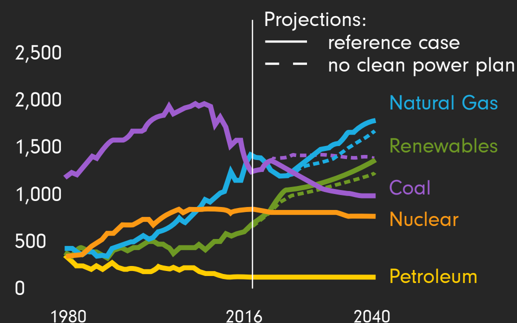
"Renewables overtook coal as the world's largest contributor to new global electricity capacity in 2015, with more than half a million solar panels installed every day. Coal-powered energy generation is in long-term structural decline in the US with natural gas now America's most important energy source of power generation. US renewables subsidies are anchored in legislation that runs at least through 2020, and the industry is strongest in Republican states, which tend to be the windiest ones. Those sweeping turbine blades (and the jobs they represent) would slice through any policy attempt to dismantle them.

"The real long-term risk to the US from any withdrawal of official support for green energy is its leadership role in renewables technology, which is hotly contested by China which is fast positioning itself as a future leader in this field. In fact, China already invests more than $100 billion a year in green energy at home (more than double the US) and outspends the US abroad in projects such as wind farms, solar power and hydropower as well as lithium production for electric vehicle batteries. China will invest a staggering $363 billion more domestically in clean energy by 2020. What's more, the Chinese government has halted construction on about 200 planned coal plants. These plants would have accounted for about 105 gigawatts of generating capacity, considerably more than the UK's electricity capacity from all sources combined."

> "Renewables overtook coal as the world's largest source of new global electricity capacity in 2015."

Wen-Wen Lindroth
— Senior Credit Analyst

US net electricity generation from select fuels (bn kwh)



Source: EIA, Annual Energy Outlook 2017

3

Sector analysis:

Old and new leaders

An oil-price fuelled recovery

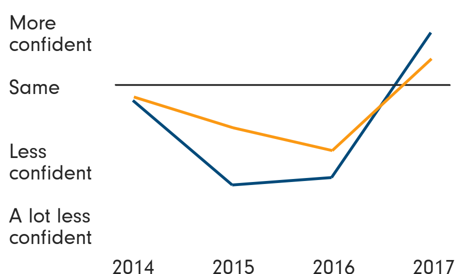
Among the most striking findings in this year's survey are the swings in sentiment in the 'old economy' sectors that did so poorly last year, particularly energy and materials. Almost all analysts of these sectors said key corporate indicators were deteriorating in 2016 but they are now optimistic for 2017.

Management confidence in energy and materials is significantly stronger than last year and capital spending is expected to recover. Returns on capital are widely seen to be improving with recovering pricing power in energy and faster growth in demand for materials, while leverage is generally expected to fall.

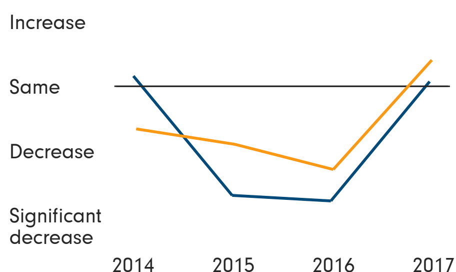
A remarkable turnaround in sentiment in energy and materials

Energy   Materials

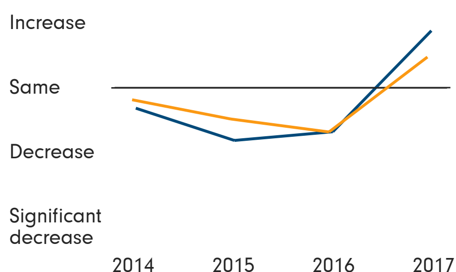
Management Confidence
What is the confidence level of the management teams in your sector to invest in their businesses versus 12 months ago?



Capex
How do organic capex plans for your companies over the next 12 months vary versus the last 12 months?



Returns on capital
What is the outlook for overall returns on capital in your sector for the next 12 months versus the last 12 months?



Source: Fidelity International, February 2017

This optimism reflects the recovery last year in commodity prices, including oil, gas, iron ore and copper, which has supported earnings growth, alongside continuing cost cutting.

Our proprietary Global Aggregates data (based on the summation of our individual company forecasts) mirrors these findings; energy analysts expect a whopping 81% rise in net income globally this year, after last year's sharp contraction (-35%), with further improvement in 2018 (+22%).

Income growth is recovering, led by energy, IT and financials

Global Aggregates net income growth estimates for global sectors (USD)

	2016	2017	2018
Cons. discretionary	6.2%	6.0%	11.7%
Cons. staples	3.1%	8.6%	9.5%
Energy	-35.1%	81.1%	21.8%
Financials	-4.7%	5.3%	6.4%
Healthcare	6.2%	3.3%	7.0%
Industrials	5.6%	7.1%	10.9%
IT	4.8%	13.9%	13.6%
Materials	13.7%	13.4%	8.1%
Real Estate	9.7%	-1.2%	8.0%
Telecoms	2.8%	5.6%	11.1%
Utilities	-6.4%	-4.2%	10.6%
GLOBAL	-0.3%	10.0%	10.3%

Source: Fidelity International, February 2017

'Management confidence in energy and materials is significantly stronger than last year.'

'Oil markets are rebalancing faster than consensus expectations.'

Materials analysts are still cautious on the outlook for mining companies, as Chinese demand for many commodities may yet soften given already high levels of fixed asset investment, peaking property markets and elevated credit levels. In addition, Chinese supply restrictions for some commodities such as coal may not be sustainable and most commodities remain in oversupply.

At the start of 2017, our analysts remain confident that oil and gas prices will continue on an upward trend while the OPEC agreement remains in place, supported by shrinking excess inventories after the capacity cuts of recent years. Oil markets are rebalancing faster than consensus expectations and companies are making better-than-expected progress on readjusting their cost and capital spending levels.

But not all energy firms are out of the woods yet; the industry expects some further stress and many companies are still adjusting their cash cycles. The severity of the downturn was such that companies need to work hard to remain competitive, which helps to explains the continuing cost cuts despite the respite offered by higher commodity prices. Moreover, the acceleration in energy capital spending is entirely driven by US shale oil and gas industries; in the rest of the world, budgets for capital spending are more or less flat for this year. Our analysts generally prefer European and US companies over emerging market energy names, many of which are still suffering from balance sheet stress.

Defensive sectors losing some of their lustre

If reinvigorated growth and demand is the story, it is no surprise that traditionally defensive sectors, with many stocks that have been popular because of their steady dividend payments, score a little lower (albeit still positive) on our sentiment indicator than those that are more sensitive to the business cycle. This includes utilities, telecoms and consumer staples.

Our consumer staples team still has a positive bias towards the sector, as many of these companies generate steady cash flows and are slowly growing their profit margins, while improved population longevity and emerging market consumption act as structural tailwinds. But brands are ever more vulnerable to competition creating operating risk at a time when steepening yield curves are threatening the sector's 'bond proxy' status.

Heightened disruption in the consumer sector

Somewhat surprisingly, the consumer discretionary sector scores lowest on our sentiment indicator this year, and is not benefiting as much from the cyclical uplift evident in other sectors. Analyst sentiment is only very slightly tilted towards improving conditions over the year with declining management confidence, capex and returns on capital; however the sector scores very highly on disruption.

The high disruption score reflects the fact that risks to incumbents from waves of industry-led and consumer-led disruption are significant. Spending continues to shift from offline to online everywhere, disrupting existing business models, intensifying competition and squeezing profit margins ever lower.[1] Smartphones have allowed consumers to compare, review and buy on the go. But consumers tend to use only a few trusted shopping apps, so as spending shifts online it increasingly moves to large retailers like Amazon. Amazon accounts for 30% of all retail sales growth in the US, but a remarkable 62% of all online retail sales growth.

‘Amazon accounts for 30% of all retail sales growth in the US, but a remarkable 62% of all online retail sales growth.’

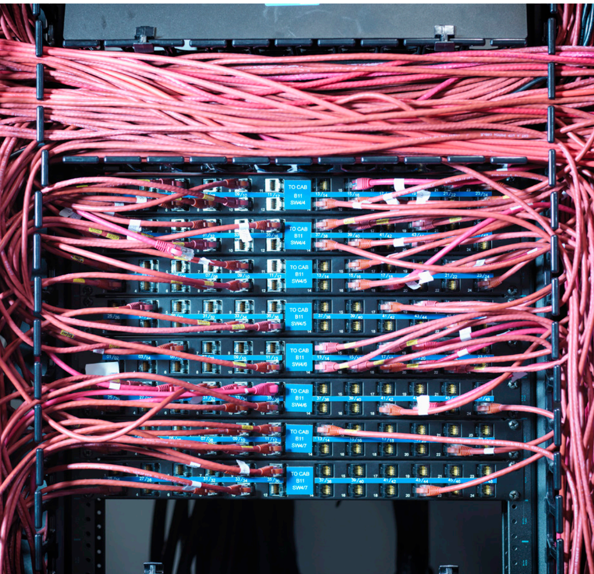
US store retailers are fast falling behind online competitors

Source: US Census Bureau, Fidelity International, February 2016

The new media onslaught

Meanwhile, new digital media firms are mounting an onslaught on traditional media companies, offering more ‘on demand’ and live television content on their distribution platforms. US consumers will spend half their media time on digital media and only a third on television this year - an almost complete reversal on five years ago, with radio and print each now accounting for 12% or less.[2] The largest new media providers - like Netflix, YouTube, Amazon Prime, Google, Facebook, etc - have well-established distribution channels in place, and are focusing on high-quality content to attract users to their platforms and keep them for longer. Video advertising is growing, so more content means more viewers and more advertising revenue.

[1] In our survey, the likes of Amazon, Facebook and YouTube fall under IT, but conventional retailers and media firms (advertising and cable) are covered by our discretionary consumer analysts. A shift to online spending and online media consumption therefore manifests itself negatively in the consumer discretionary findings, but positively in IT.
[2] Source: Huber Research Partners, July 2016



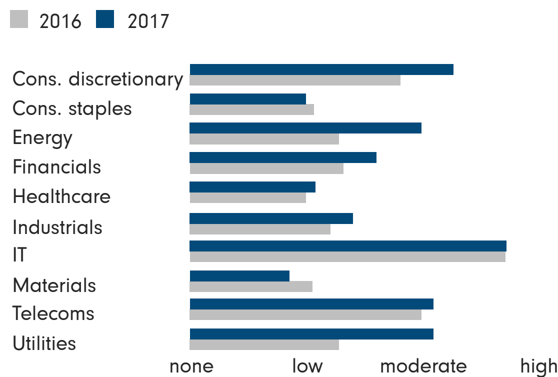
This threat has not gone unnoticed by traditional telecom providers, which are telling our analysts that they're planning to increase investment in the expectation of more industry and regulatory disruption, for example, allowing them to capture more value from content creation and distribution. More spending on new technologies, fibre optic cabling, 4G, and 5G is necessary, and business models are changing with further industry consolidation on the cards.

'Business models are changing with further industry consolidation on the cards.'

But these new media firms need 'net neutrality' to maintain their position, with consumers free to access websites and download information at the same speed regardless of which site they're on, something which is far from guaranteed by the new US administration.

Analysts see growing disruption

What will be the likely impact of disruptive technological change on your sector?



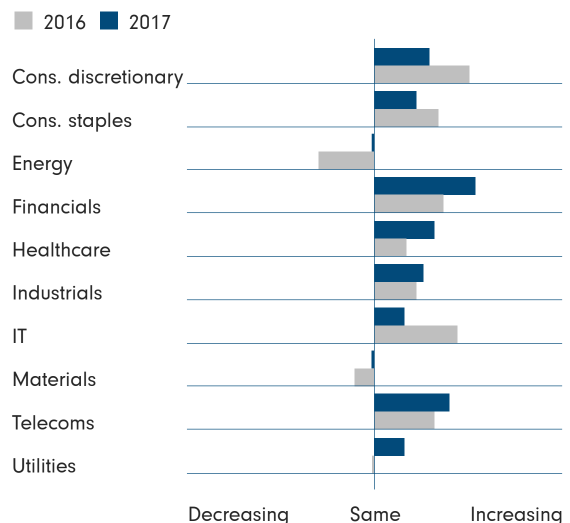
Source: Fidelity International, February 2017

IT: The biggest winner from disruption

One of the most interesting findings in our survey is the resilience and optimism in IT, despite huge disruptive forces, indicating change creates both risks and opportunities. More than half of all our IT analysts think management confidence is strengthening, feeding through into rising capital expenditure (mostly on growth investments rather than maintenance), increasing returns on capital, and higher dividend payments this year.

Analysts see IT spending increasing in most sectors

Are your companies planning an increase or reduction in IT spend over the next 12 months?



Source: Fidelity International, February 2017

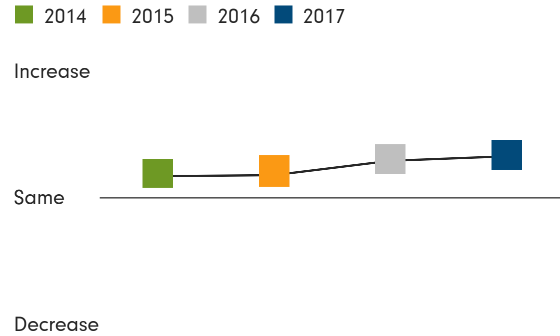
IT's position is unique. It is the disruptor for all other sectors, but the sector itself is not disrupted by those other industries. To put it another way, there has yet to be a case of an Uber or Didi Chuxing being disrupted by a taxi firm.

Almost without exception, our analysts see stable or rising IT spending across sectors and regions. This does not just create work for IT developers; Gartner estimates that for every $1 spent on digital innovation/'ideation', companies will spend another $7 on deploying the solution. Firms like SAP, Oracle, Microsoft, Temenos, IBM, Accenture, Infosys, Capgemini and Cognizant all stand to benefit from these trends.

Artificial intelligence, virtual reality and augmented reality may all change our world beyond recognition in the next few years, in the same way that social media and online connectivity have transformed consumer behaviour in recent years. In a benign macro-economic environment, with sustained or renewed growth in many of the world's major economies, companies in all sectors will free up budget to avoid losing the technological arms race. It is this optimism that is captured in our IT analysts' sentiment in this year's survey.

Analysts are more optimistic about IT spending

Are your companies planning an increase or reduction in IT spend over the next 12 months?



Source: Fidelity International, February 2017

Reflationary growth helps financials deal with transformation

The financials sector is an interesting example of how growing IT budgets reflect the rise of transformative technologies. Two thirds of all financials analysts, up from just over half last year, expect companies under their coverage to spend more on IT over the next 12 months - more than in any other sector and about double the all-sector average. Most of this is spent on software, mobile and security. Considering that more than half of all financials analysts also see disruption at work among their companies, this points to a sector that is rapidly having to adapt to new technologies and changing consumer patterns.

> 'Artificial intelligence, virtual reality and augmented reality may change our world beyond recognition.'

The Scandinavian bank Nordea, for example, disclosed it now has over six times as many transactions conducted via mobile than in branches, a divergence that is only going to get wider. And this figure doesn't even include the exponentially larger number of balance enquiries and other types of non-transactional queries that are being made on a far greater scale than in the traditional banking environment. Such engagement is only possible with additional investment in back-end IT systems.

Overall, financials analysts are cautiously positive on their sector in the US, Europe and Japan as company fundamentals slowly improve, which helps to explain rising IT spending. Meanwhile, reflationary trends are strengthening in the US and the UK and global economic growth is accelerating, supporting credit quality, banks' lending activity and margins, as well as helping insurers. Additionally, Trump's administration is set on rolling back regulation and lowering the tax burden, both of which support financials.

Innovation as a growth engine

Finally, healthcare remains one of our analysts' favoured sectors. It scored highest in our survey last year and we still expect conditions to improve further this year.

Over recent years, markets have anticipated rising earnings as research and innovation led to new treatments and medicines, but our analysts think the sector's medium-term earnings potential may still be underestimated. The time from innovation to treatment is speeding up, pipelines of new therapies and products are strong, and further sector consolidation is likely. Despite occasional unhelpful presidential tweets on pricing, political uncertainty for the sector in the US is fading, which is supporting further investment.

'Healthcare scored highest in our survey last year and we still expect conditions to improve further this year.'

Blurred lines between content and service providers

Our analysts report that telecoms companies are planning to increase investment in the expectation of further industry and regulatory disruption. This spending could be a significant differentiator if the threat to end 'net neutrality' comes to pass. Meanwhile, our analysts forecast M&A activity will remain high after a series of strategic consolidations, most recently in the shape of AT&T's proposed $85bn merger with Time Warner.

"Content generators (television & digital media companies), content aggregators (social media firms) and content distributors (telecoms & cable companies) are all in the midst of a vicious content war; a 'Game of Thrones'-like battle for digital content supremacy and user stickiness.

"The major telecom providers are increasingly focussing on content in the knowledge that they already control the distribution mechanism that gets it to our devices.

"The content distribution business itself generally doesn't make telecom providers much money, but it does allow them to price-discriminate aggressively - and deliver content with targeted advertising on top - based on everything they know about a viewer. This could be even more powerful with new technologies that allow telecom providers to determine what data are being sent and by whom.

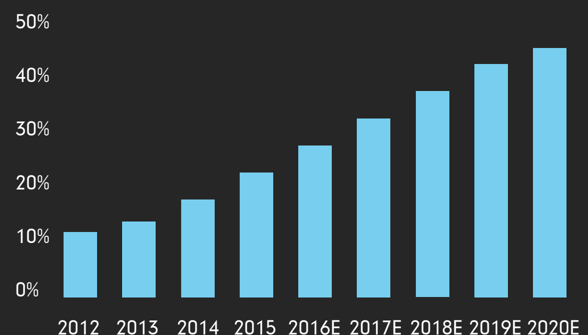
"Content generators, content aggregators and content distributors are in the midst of a vicious content war."

Jamie Lewis
— Equity Research Associate, US Telecoms

"This clamour for content is why AT&T launched a bid for Time Warner and it provides an insight into how Comcast hopes to increasingly monetise its NBC investment. Moreover, if net neutrality is rolled back, the opportunities for telecom providers to profit from a discriminating and increasingly personalised approach to content provision suddenly become more lucrative."

As digital viewing rises, the battle for content heats up

Digital video share of total US video viewing



Source: BofA Merrill Lynch Global Research, January 2017

4

Political environment:

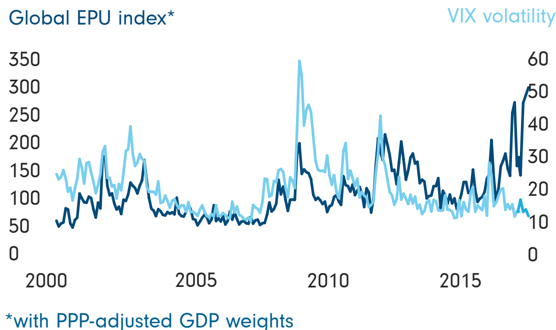
Cutting through the noise

A new political environment

You don't need to be an oracle to predict that 2017 is going to be a year of considerable uncertainty and change. Companies and investors alike are starting to cope with a range of known unknowns and unknown unknowns as President Trump sets new policies from the White House, the UK heads for 'Brexit' from the EU, and we await important national elections in Europe. Political ideologies, economic policies and geopolitical truths that once formed part of the bedrock have begun to crumble into shifting sands.

To find out what the changing macro and political climate means for companies, we added a range of topical questions to our survey. This bottom-up picture of what is going on is intriguing. Our analysts' responses reveal a surprisingly upbeat outlook for the global corporate sector, which is actually less weighed down by political risk than gloomy media reporting might suggest. Political risks - often indistinct and difficult to plan for in any case - aren't strong (or clear) enough to counter the upbeat cyclical forces that are evident in all regions and sectors.

Unusually, high political uncertainty has not raised market volatility



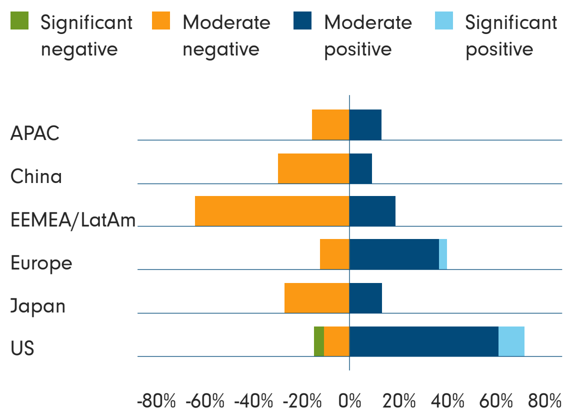
EPU index calculated with PPP-adjusted GDP weights. Source: Fidelity International, CBOE, Economic Policy Uncertainty, February 2017

Economics trumps politics

Notably, Donald Trump's presidency is seen as moderately positive for companies in both the US and Europe, while a majority of Asia analysts say their companies do not expect any impact at all.

The Trump effect may be positive for companies in the US and Europe

What impact are your companies expecting from Trump's presidency over the next two years?



Share of global responses. Analysts who responded 'no impact' are not displayed in the chart. Source: Fidelity International, February 2017

Corporate tax reform, income tax cuts, infrastructure spending, Trump's pro-fossil fuel stance, deregulation, steeper yield curves and the 'clean sweep' Republican control of Congress could all contribute to better prospects for US companies.

On the other hand, those US analysts who are more cautious flag potential risks from increased wage costs, more expensive imports, deteriorating export opportunities due to poorer trade relations and protectionism, damaging disruption in the healthcare sector, attacks on individual businesses or projects, and some regulatory and tax changes.

However, in EEMEA/LatAm the impact is widely seen as moderately negative

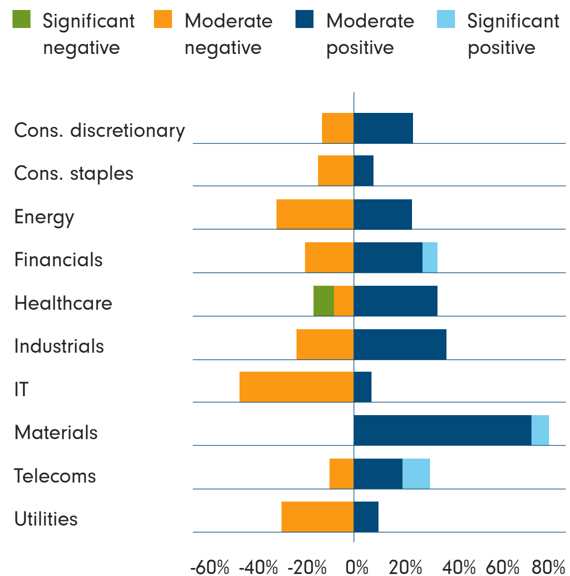
This is not surprising; analysts say that while these markets would benefit from stronger growth (and therefore demand) in the US, and new infrastructure spending would support demand for commodities, they are most at risk from protectionist policies, incentives for US companies to onshore their activities, and reduced outbound US investment. A stronger dollar means tighter financial conditions and less local consumption. Policies to encourage companies to repatriate cash to the US would also hurt.

The impact of Trump's presidency on sectors is mixed

Materials, telecoms, industrials and financials are expected to benefit. Infrastructure demand would support materials producers in the US, while foreign producers thrive on dollar strength as they often have costs in local currencies but sell their products in dollars. Financial companies would benefit from the expected reflationary policies leading to stronger demand (supporting loan activity) and steeper yield curves (not just in the US), as well as from infrastructure financing in the US. But the global IT sector is expected to face some headwinds as its highly international, complex, integrated production and value chains now appear vulnerable to increased protectionism and reshoring. This disruption in value chains is likely to create new winners and losers.

Trump's impact on sectors is mixed

What impact are your companies expecting from Trump's presidency over the next two years?



Share of global responses. Analysts who responded 'no impact' are not displayed in the chart. Source: Fidelity International, February 2017

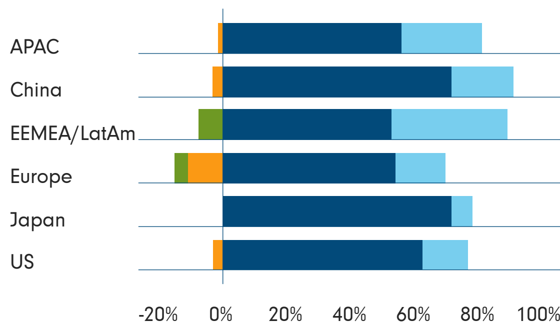
A growth boost from fiscal policies

Although it is anyone's guess as to how much of his wish-list President Trump will ultimately be able to push through, many analysts who focus on the US suggest his fiscal stimulus plans will indeed be moderately positive for firms which do not source from abroad.

The vast majority of analysts around the world agree that stronger fiscal stimulus in their regions would support business activity (and conversely, faltering infrastructure spending in China would be negative). However, some also warn that margins may come under pressure if inflation rises while funding fiscal programmes could put a strain on budgets.

Fiscal policy stimulus would be welcomed

What impact would growing fiscal stimulus have on your sector?

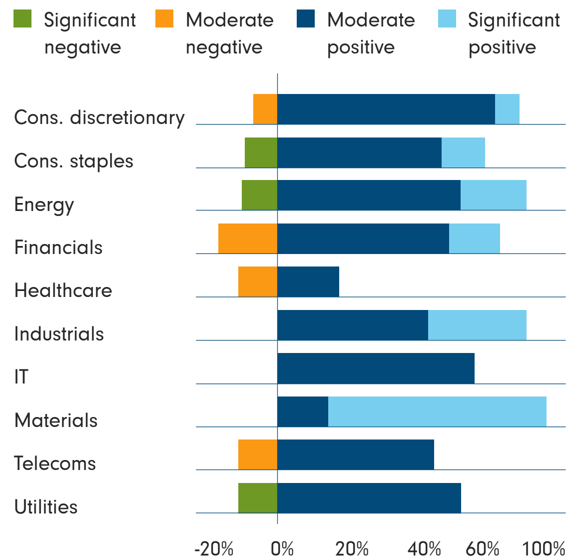


Share of global responses. Analysts who responded 'no impact' are not displayed in the chart. Source: Fidelity International, February 2017

'The vast majority agree that stronger fiscal stimulus would support business activity.'

All sectors would benefit from fiscal policy stimulus

What impact would growing fiscal stimulus have on your sector?



Share of global responses. Analysts who responded 'no impact' are not displayed in the chart. Source: Fidelity International, February 2017

New regulatory battlefields?

Few industries have escaped tighter regulatory oversight in recent years, triggered by the deepest financial crisis in decades and a raft of corporate scandals ranging from a lack of governance to outright deception. While new regulation often raises costs for companies, they can also benefit, as evident, for example, in banks' sounder balance sheet scores in our survey compared to a few years ago, which helped to see them through market turbulence in 2016.

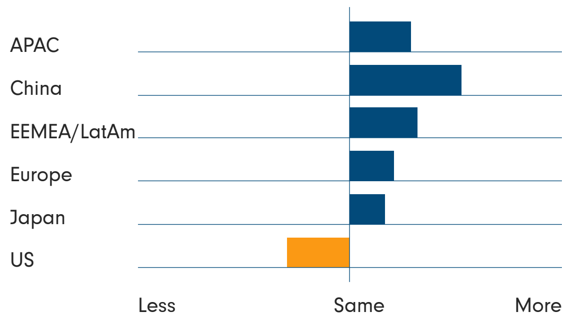
But the consensus opinion that regulation, borne out of crises, is ultimately beneficial to a country's economy overall, may be breaking down. Our survey shows that regulation is expected to remain in place or increase in most of the world, with

consumer, utilities and telecoms analysts in Asia, EEMEA/LatAm and Europe raising this as a risk to their companies. Half of all US analysts, in contrast, now expect less regulation for their sectors.

This is likely to widen the policy divide between the US and the rest of the world, providing an additional tailwind for US companies in many sectors, from financials and consumer discretionary to energy and telecoms.

US regulation is expected to take a different course

Are the companies in your sector expecting more or less regulation?



Source: Fidelity International, February 2017

'The consensus opinion that regulation is ultimately beneficial to a country's economy overall, may be breaking down.'

5

Risks on the horizon

The outlook may be positive, but it's important to know the risks

Our analysts are more bullish about the outlook for their sectors than in previous years, but they do also warn of some material risks.

Some risks are political; those are the ones that have been attracting most attention. But it's possible that oil prices slide again, forcing another round of adjustment in the energy sector and rippling through other sectors and economies, or that demand growth disappoints. Indeed, these are significant potential threats to our cyclical upturn story. Meanwhile, a resurgence of inflation - largely in the US and the UK - could lead to tighter financial conditions globally, which could hurt many companies.

A reversal in oil prices

Our survey results show how important oil prices still are to the global economy; the recovery in crude is one of the main drivers of renewed cyclical vigour that is coming through in the survey's improved reading of corporate conditions, reversing the 2016 findings. The low oil prices of previous years didn't only weigh on energy companies; second-order effects crippled many other industries too.

Take, for example, firms with general industrial exposure - manufacturers that sell their machinery in high volumes to other industrial firms and that are quick to change direction. At first sight, such companies may seem to lack exposure to the oil price; for example, perhaps only 5% of sales are to energy companies. But 30% to 40% of sales are to other firms that sell to oil companies. As oil prices rise, this can lead to some surprising beneficiaries; names that aren't obvious players on oil or gas. But when oil prices fall, direct and indirect suppliers from other industries will ultimately feel the pain - as was evident in 2015/16.

Overall, our analysts remain modestly positive on oil prices based on a further rebalancing of supply under the current OPEC agreement, but they do warn that there are some risks on the horizon.

While many companies are now better placed to deal with lower oil prices, share prices would still be hurt severely by a scenario any less positive than the current consensus. This could create significant funding constraints for oil companies.

Disappointing demand

The positive outlook also hinges on demand growth continuing, with China playing a central role. Cuts to China's infrastructure stimulus, weakening consumer or commodity demand, or the property cycle souring could lead to a soft or even hard landing.

But demand growth is important beyond China. Consumer confidence and demand in the US and emerging markets are key while potential delays to public capital spending in Asia would also pose a risk to companies' prospects.

Analysts are most concerned about demand

What is the biggest risk factor to the fundamentals of your sector?

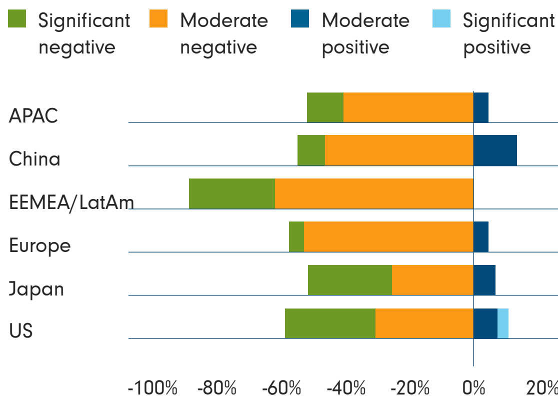
Free text answers, categorised, as a percentage of total responses. Source: 2017 Analyst Survey, Fidelity International

Protectionism

Overall, Trump's new policies - still speculative when the survey was conducted - are regarded as moderately positive if successfully implemented. However, there is clear concern around growing protectionism - including the US. In fact, only one in ten analysts covering the US think their companies would benefit from protectionist policies.

Even US analysts see a negative impact from protectionism

What impact would protectionist trade policies in the US or elsewhere have on your companies?

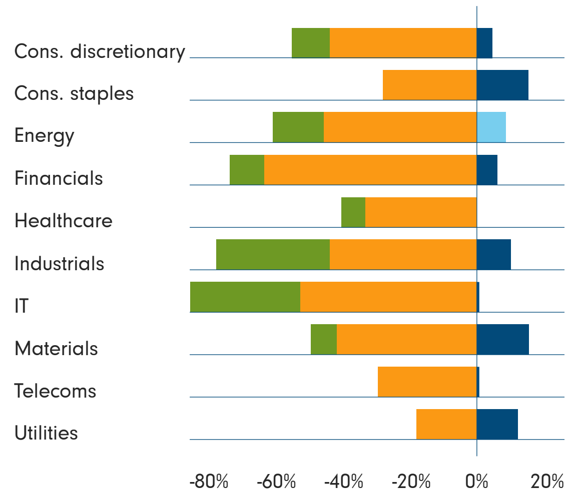


Share of global responses. Analysts who responded 'no impact' are not displayed in the chart. Source: Fidelity International, February 2017

'Only one in ten analysts covering the US think their companies would benefit from protectionist policies.'

Concerns about protectionism are shared across sectors

What impact would protectionist trade policies in the US or elsewhere have on your companies?



Share of global responses. Analysts who responded 'no impact' are not displayed in the chart. Source: Fidelity International, February 2017

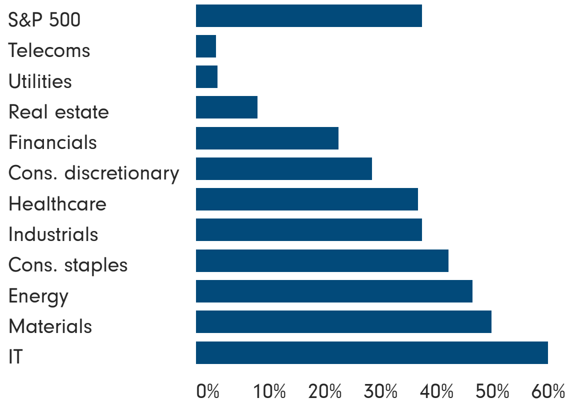
Not only do analysts warn about the risks to imports of components and international supply chains from tariffs, reduced tax deductibility, new rules on imports, or disincentives to outsource to India or elsewhere, they also note the risks to exporters from retaliatory action abroad. The EEMEA/LatAm regions appear most vulnerable to a rise in protectionism. Among sectors, IT, industrials, financials and consumer discretionary companies would be worst affected.

President Trump's planned border taxes are aimed at supporting the domestic economy, but our analysts provide some good examples of how they can actually harm US businesses. US industries with high exposures to global trade would have much to lose from tit-for-tat protectionism.

Even if Trump manages to get a 20% import tax and 20% export tax credit past the WTO and avoid triggering a bigger trade war, it would be a "supply chain disaster", according to our US industrials analyst.

Many US businesses would suffer from retaliatory protectionism abroad

US company foreign revenue exposure



S&P 500 company data. Source: Factset, Fidelity International, 31 December 2016

We expect that the automobile industry, with its highly global supply chains and weak pricing power, would flip into losses. Our calculations suggest net margins for industrial companies would fall for all firms whose goods imports make up more than 16% of the total cost of goods sold. And businesses like furniture retailers, which source a lot of their goods from abroad, would become loss-making almost instantly, requiring drastic action in the form of price hikes and (more expensive) local sourcing.

Moreover, in the real world, all else is not equal. Border taxes could simply feed in to dollar appreciation, leaving exports and imports unchanged. Arguably, this is already evident in the decline of the Mexican peso, which reduces the cost of producing in Mexico for US companies.

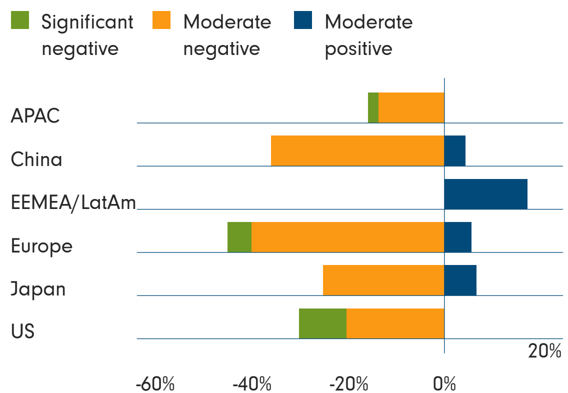
Brexit

Companies are already positioning for Britain leaving the EU, and are adjusting their strategic investment plans. A majority of analysts who cover Europe and 40% of analysts who focus on Japan say Brexit will have a moderately negative impact on their companies, affecting industrial and energy companies, discretionary consumer goods producers, financials, and IT firms in particular.

More specifically, no less than half of all Europe analysts, and a quarter of all Asia analysts combined, warn that their companies are less willing to invest in the UK as a result of the referendum. They note the dampening effect of uncertainty in general, the lack of detail about future UK/EU relations and other trade ties, the risks to London's financial sector and property market, and the possibility of a loss of talent.

After Brexit, European firms are less keen to invest in the UK

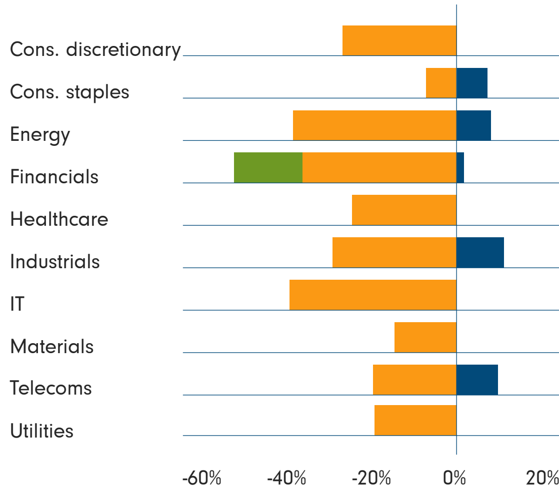
How has the Brexit referendum impacted the willingness of your companies to invest specifically in the UK?



Share of global responses. Analysts who responded 'no impact' are not displayed in the chart. Source: Fidelity International, February 2017

Financials, IT and energy look most vulnerable to Brexit

How has the Brexit referendum impacted the willingness of your companies to invest specifically in the UK?



Share of global responses. Analysts who responded 'no impact' are not displayed in the chart. Source: Fidelity International, February 2017

Runaway inflation

Inflationary signals have clearly picked up compared to last year, raising speculation that the end of disinflationary era may be near in markets like the US and the UK.

Will rising energy prices and stronger growth cause a revival of core inflation (excluding food and energy) and, more importantly still, a resurgence of inflationary expectations? Will rising costs translate into higher consumer prices, and will tighter labour markets lead to stronger wage inflation - especially in the US? Will the post-Brexit drop in sterling lead to higher expected inflation in future years in the UK?

Elections and geopolitics

Outside Europe, corporate profits are generally not deemed vulnerable to political uncertainty or instability within Europe. However, European companies are seen to be exposed with half of our analysts saying profits are moderately vulnerable, but only one in eight sees significant risks.

Equally, analysts see only limited evidence of geopolitical risks affecting strategic investment plans this year. Almost none report significant adjustments. Some, especially in EEMEA/LatAm and Japan, see a moderate influence on companies' strategic planning, but a majority everywhere else says these risks are not affecting long-term decisions at all. Globally, energy firms may benefit from supply disruptions triggering higher oil prices.

Early indications are that all of these effects are real but still weak, making it unlikely that inflation will overshoot targets significantly in the short term. In addition, the interaction between monetary and fiscal policy has yet to become clear in the US. Any premature monetary tightening before fiscal policies have had time to take effect could hasten the end of the economic cycle. It could also put upward pressure on the dollar, causing further financial tightening, given that few other major economies are in a position to raise interest rates.

Still, analysts note that higher inflation can shift the balance for companies; those with pricing power benefit but those without will struggle, as will companies whose stocks are regarded as 'bond proxies' for their safe income characteristics.

'Any premature monetary tightening before fiscal policies have had time to take effect could hasten the end of the economic cycle.'

Summary

All investment views carry risks - while our 'base case' analyst outlook is set out in chapters one to four, it is the job of our analysts to continuously adapt and re-test their investment theses when there are meaningful changes in the environment. So, for instance, while there is modest optimism over oil prices, it is caveated by the knowledge that OPEC supply non-compliance or weakness in economic demand could lead to renewed falls, which would undermine conditions in a range of sectors.

Encouragingly, there are few signs that political risk is genuinely holding companies back. Our analysts are not oblivious to the many political challenges that face the world, but generally they do not see these weighing on company investment decisions, with the noted exception of Brexit.

6

Why research matters

Investing requires a continuous research commitment to build a deep understanding of what is driving industries and individual businesses

This is where our analysts come in. By undertaking 360 degree analysis of companies and their positions within industry value chains, they generate insights that are different to the market.

Our research teams actively cover over 80% of the world's market capitalisation and investment grade credit universe. They also tactically cover the remainder.

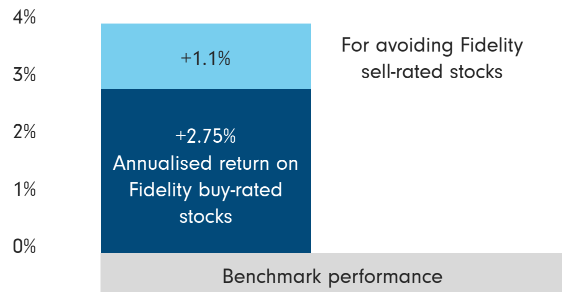
With unrivalled access to company management teams, our analysts conduct around 17,000 company meetings a year; roughly one every 10 minutes of any working day. Over half of these meetings are on company sites, and will include visits to competitors, customers or suppliers. This can mean going to Indonesia to meet a second-tier customer of a company or it can mean commissioning some bespoke research into the use of medical devices. Ultimately, it's a willingness to turn over more stones than anyone else in the market.

By sharing insights and ideas across a single global research platform, analysts benefit enormously from close collaboration with colleagues covering other industries and geographies. It's all about joining the dots with insight in one area completing the picture in another. Conviction is built by ideas being discussed, corroborated, and validated within a collegiate culture. And critically, a consistent approach to core financial modelling - rare in the industry - means global collaboration is enhanced by a common investment language.

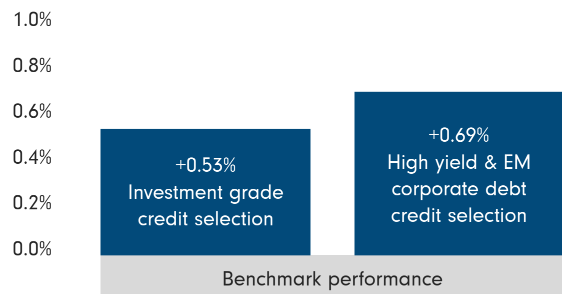
The result is Fidelity's forecasts and ratings on securities that are different from the market consensus - with only the highest-conviction ideas finding their way into client funds. This individual security research is also used to create a range of proprietary global aggregates - growth, valuation and return forecasts for industry sectors and regional markets that are distinctive for being built entirely from the ground up.

Fidelity research ratings add value - Annualised returns relative to benchmarks

Global equities (Jan 2010 - Dec 2016)



Global fixed income (Dec 2011 – Dec 2016)



Source: Fidelity International, 31 December 2016. Equity: Hypothetical annualised return of investing long in a portfolio of Fidelity International buy-rated securities and avoiding sell-rated securities, relative to their benchmarks, market cap weighted by region. Fixed Income: shows basis point contribution to gross annual fund performance from credit selection (residual after rating and credit sector factors), based off Wilshire AXIOM attribution system with in-house augmentations.

'Our research teams actively cover over 80% of the world's market capitalisation and investment grade credit universe.'

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In addition to asset management, we provide investment administration and guidance services for workplace benefit schemes, advisers and individuals in several countries, with USD $83 billion in assets under administration.*

Established in 1969 as the international arm of Fidelity Investments, founded in Boston in 1946, Fidelity International became independent of the US organisation in 1980, and is today owned mainly by management and members of the original founding family.

*All data as at 31 Dec.16

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