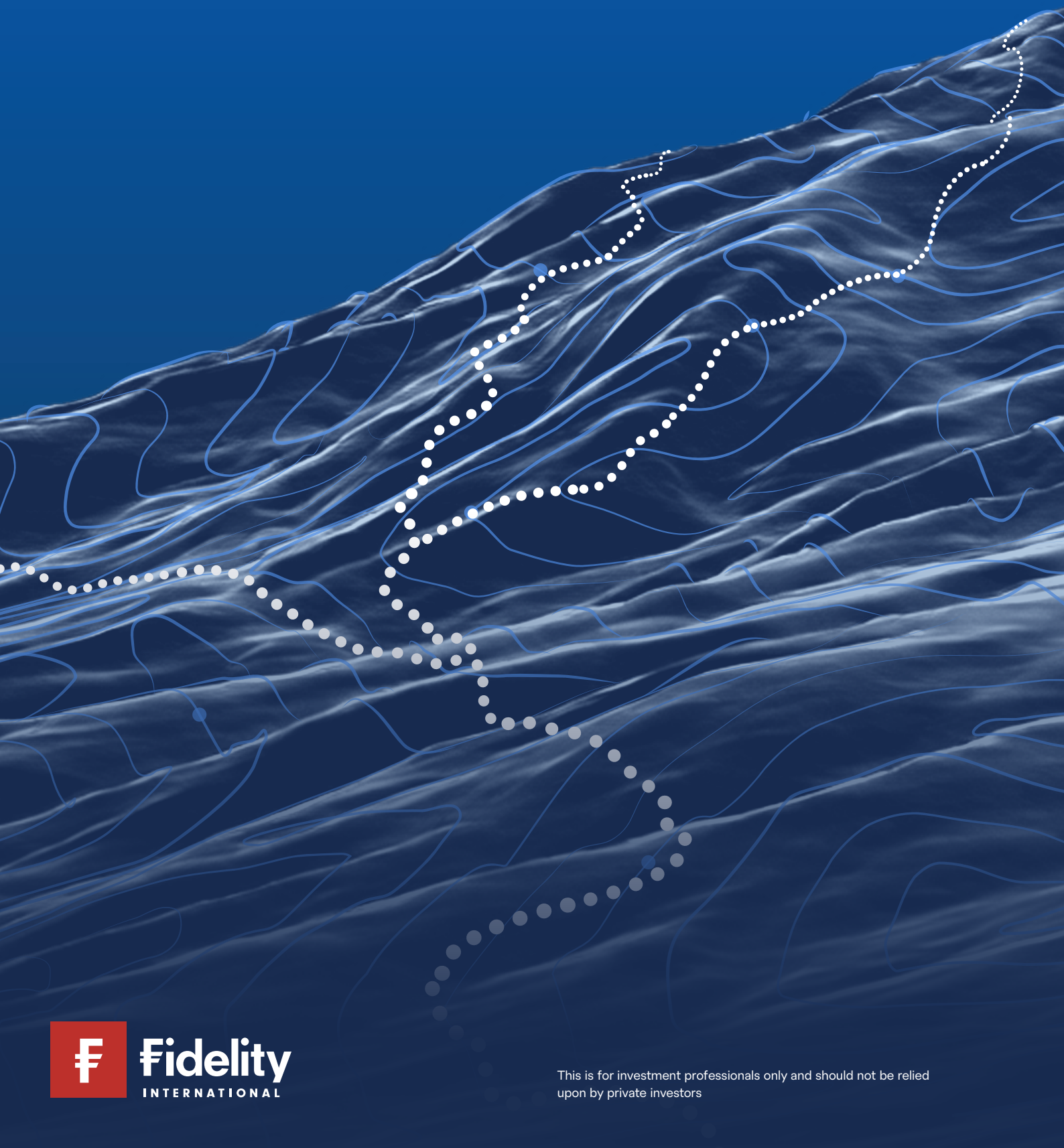
Outlook 2027

A way through

How AI, inflation, and global fragmentation are reshaping the investment terrain



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Foreword

Old routes, new maps

The change of calendar year rarely corresponds with the big moments in financial markets, or in asset management as an industry. But the ending of a year and the start of a new one does give us a window of time to stop and reflect, which is why annual outlooks have become a seasonal ritual. The idea is not necessarily to deliver a change in investment approach, but rather to take stock.

We have reached a point where interest rates are higher today than many people working in financial markets have seen at any point in their career. That does not mean there isn't a playbook for the current state of markets and the global economy. It just means we have to update some old ones as we assess risks that for a number of markets may already prove to be substantial.

Higher rates have changed the landscape for investors everywhere and for the business of asset management. If you can get 5 per cent from a money market fund, for example, you're going to see a lot of growth in liquidity solutions. There is a reason for this: inflation, lowering the purchasing power of money globally, is a challenge we have not faced for many years. The changing shape of benchmarks driven by the AI trade meanwhile strengthens the case for taking a selective approach to risk and for a wide-ranging rotation that is already taking place. For both you need research.

In the pages that follow you'll hear the thoughts of my colleagues from across asset classes on what promises to be yet another impactful year. There will be volatility. There will be setbacks. There will be developments we could not have foreseen, as well as others we are already quietly preparing for.

As the world continues to change at a rapid pace, it will throw up opportunities to take advantage of, and obstacles that, as the title of this outlook suggests, require us to find a way through.



Andrew Wells
Head of Asset Management

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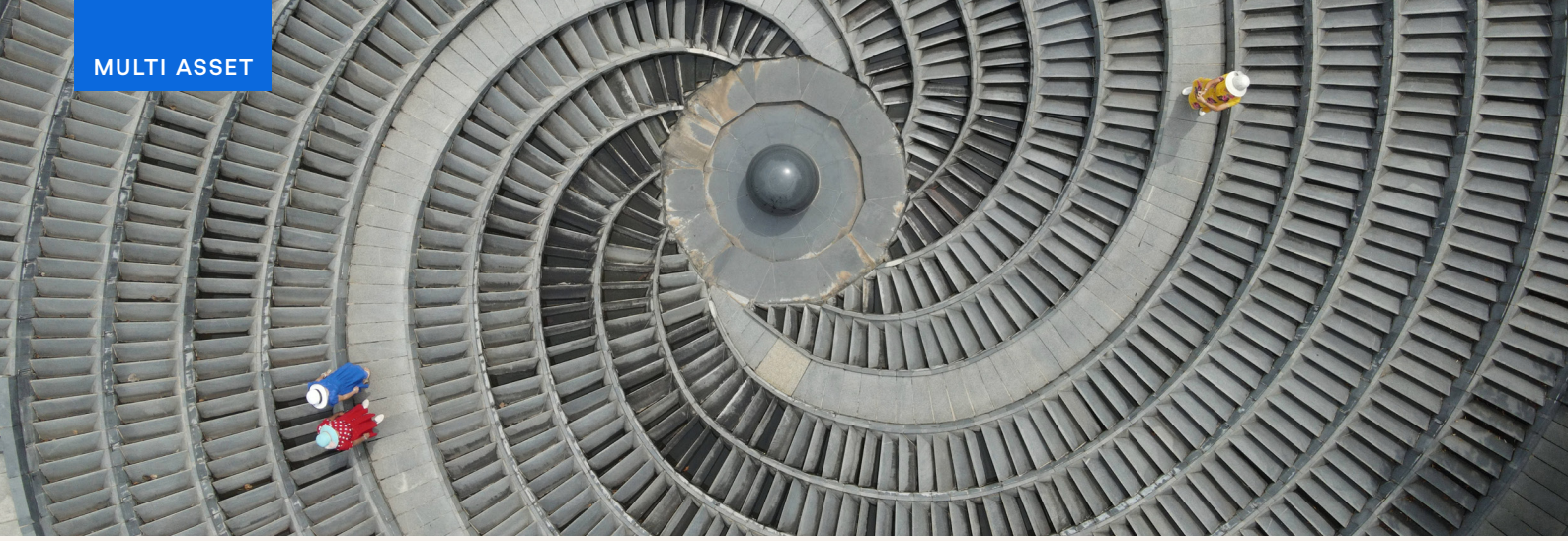

How to play this late cycle

Solid US growth supports a risk-on stance as we move into 2027, but risks from bond yields and geopolitical tensions are mounting. The AI trade demands selectivity, complemented by alternative sources of alpha.



Henk-Jan Rikkerink
Chief Investment Officer
Multi Asset, Real Estate, and Systematic



Salman Ahmed
Global Head of Macro and
Strategic Asset Allocation

TOP MULTI ASSET CONVICTIONS:

- **For total return investors:** AI and grid infrastructure, Japanese banks and mid caps, and high yield bonds given attractive all-in yields.
- **For income investors:** high-yield, emerging market hard currency debt, and selective EM local debt. High-dividend stocks will provide both income and diversification, held alongside the key total return themes.
- **For defensive investors:** contractual hedges like put options and credit derivatives are important for downside protection; statistical hedges like bonds, gold, and defensive FX (such as the Swiss franc) mitigate other risk factors.

Markets and economies find themselves more and more entwined: technology giants have deployed capex across an expanding AI value chain, and strong corporate earnings have supported markets everywhere from the Nasdaq to the Nikkei.

Recent volatility has brought some of the associated risks into focus, with markets increasingly sensitive to questions around AI investment and interest rates. Where investors once were happy to reward companies that overshot market expectations for AI-related capex, any unproductive spend is likely to be punished in 2027. Rising interest rates and wider credit spreads are pushing up the cost of funding such investments, and a fragmenting global economy adds volatility to a complex macroeconomy. We enter a world of still-resilient growth, built on increasingly shaky foundations.

At trend growth, risks mounting

AI investment continues to be the primary positive driver for economies, especially in the US, where growth levels are likely to moderate but remain solid at around 2 per cent. Corporate spending is fuelling private investment in infrastructure and supporting higher AI earnings growth, and equity market gains are spurring consumption levels.

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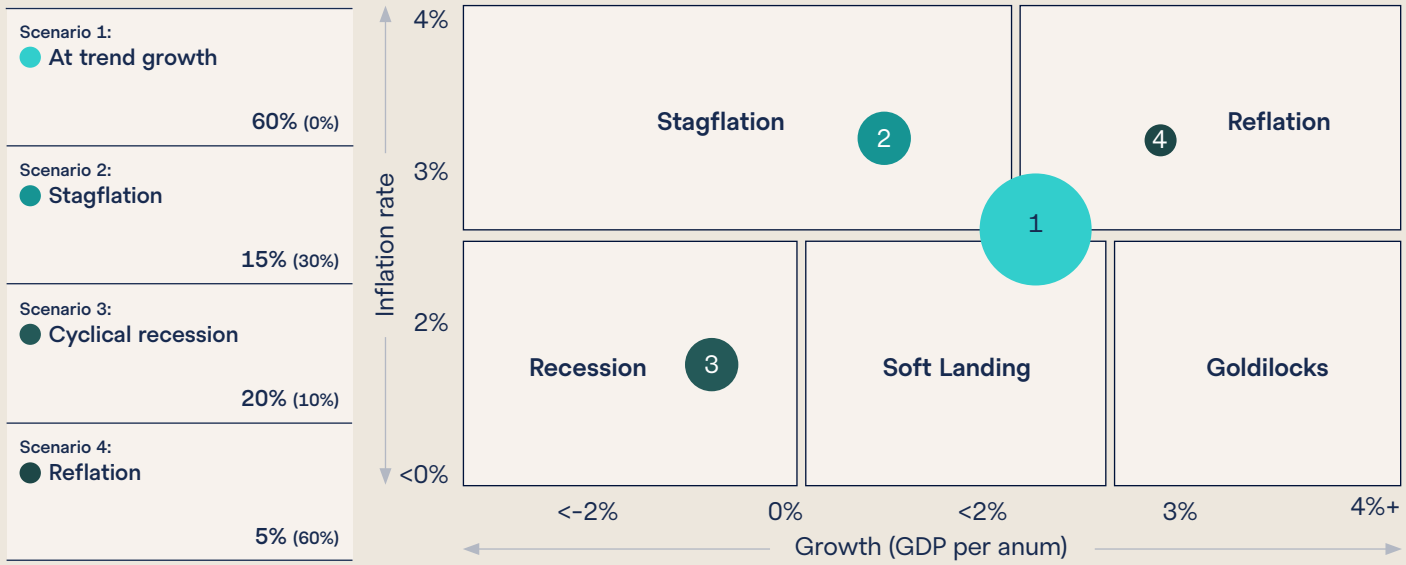
The US in 2027

Growth likely to move towards trend pace (2%) as the effect of Fed hikes filters into the macro environment



Source: Fidelity International, November 2026.

Growth in Europe meanwhile has proven surprisingly resilient. German fiscal expansion has boosted manufacturing and this is likely to persist in 2027. But French political uncertainty and higher energy prices may challenge this outlook. The European Central Bank has already raised rates twice, and is likely to do so twice more to stay ahead of inflationary pressures.

In Asia, the Japanese government is hoping to encourage investment into rebuilding manufacturing capacity. For the year ahead, we anticipate continued wage-led and investment-driven reflation in the country.

The latest Chinese five-year plan likewise emphasised investment in manufacturing, with a move away from property as a growth driver. The People's Bank of China will still focus on easing conditions, targeting stimulus at priority sectors. (You can read more on the investment implications for these countries in our Asia outlook on page 16.)

Strategic fragmentation, inflation, and active allocation

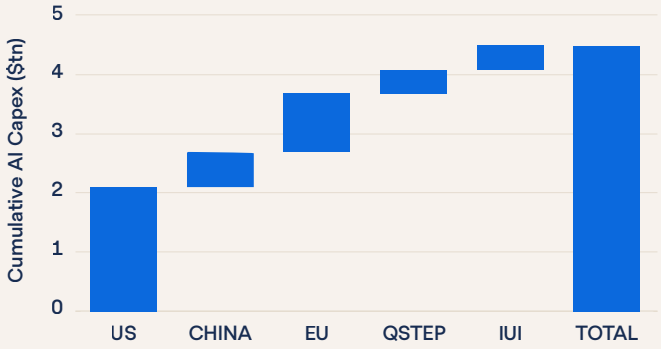
Our outlook for 2027 sits in a wider context of 'strategic fragmentation' - the retreat from globalisation towards the formation of regional blocs.

In this splintering world order, ports, pipelines, straits, and payment rails turn into economic leverage. Increasingly, hard power is used to draw newly calculated lines and borders, which will sit at odds with commercial priorities.

This makes fragmentation structurally inflationary. A world split into regional blocs compels each to invest in its own resilience. This is especially true as AI brings with it national security considerations, encouraging countries to shift from the US as a single point of AI risk.

AI capex likely to top $4.5tn in race for self-sufficiency

Projected AI capex spend by country/bloc



Note: US AI Capex calculated as total realised US hyperscaler capex since Q1 2023 ($1.2tn) + analyst forecasted capex over the next 2yrs ($900bn). Other blocs/countries calculated at a discounted ratio of bloc per capita GDP over US per capita GDP, with a minimum assumed spend of $400bn. Given direct competition, China is assumed to need to spend more than this calculation. QSTEP: Qatar, Saudi Arabia, Turkey, Egypt, Pakistan. IUI: India, UAE, Israel.

Source: Fidelity International, FIL Global Macro & SAA Team calculations, Bloomberg, World Bank WDI, July 2026.

While the macro backdrop is complex, we are cautiously optimistic about markets through 2027, while recognising that late cycle risks abound, exaggerated by an increasing interdependence across regions and sectors because of the AI build-out.

Through 2027 we will be looking for risk opportunities but via routes with a comfortable margin of safety. Four themes stand out:

1: AI rewards and risks

AI capex is likely to remain a dominant driver of markets in the year ahead, and we want to ensure we maintain exposure to the structural theme. Tech and tech-adjacent

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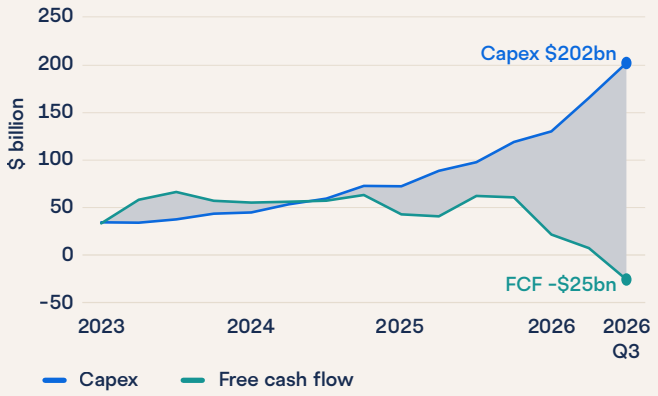
sectors now contribute around half of the total earnings growth for the S&P. But as risks mount, we are becoming increasingly selective in our allocations.

The US build-out in particular faces challenges stemming from data centre delays, as signalled by November's sell-off following the Democrat mid-term sweep. "Texas is expected to account for roughly 25-30 per cent of the data centre capacity coming online over the next few years," says technology analyst Austin Kelly.

"The shift in power in Texas has created uncertainty over how much of that capacity will come online. The market hates uncertainty and downside to fundamentals that it struggles to quantify."

Rising borrowing costs add another source of pressure, raising the returns required to justify AI capex. Investors are likely to start discriminating between the companies that can fund and realise returns from their AI spend, and those that can't.

Tech capex is pulling ahead of free cash flow
Quarterly totals for Meta, Alphabet, Microsoft, and Amazon



Note: Tickers - META US Equity, GOOGL US Equity, MSFT US Equity, AMZN US Equity. No rolling sum. Capex is a negative cash outflow; sign reversed for positive capex. Gap is an arithmetic difference, not external financing need.
Source: Fidelity International, Bloomberg, 02 November 2026. Latest financial quarter 30 September 2026.

Well-capitalised hyperscalers look best placed to absorb delays to data centre construction. We are still positive on compute and memory over the long term as valuations have dropped, but wary of building too much exposure here while AI financing conditions look volatile. (Read more on the earnings test for AI in our equities outlook on page 8.)

2. Non-AI alpha

Given these risks, we will also look to alternative sources of alpha where earnings are not correlated with AI performance.

These include German infrastructure, a sector supported by the country's fiscal policies, and Japanese mid caps and financials, which gain from fiscal spending, strong domestic demand, and corporate reforms.

3: The bond balance for multi asset investors

Bond yields are likely to remain elevated throughout 2027, offering meaningful income opportunities even after adjusting for inflation.

We favour high yield bonds for their attractive all-in yields, supported by strong fundamentals and low default expectations. Investment grade spreads have been too tight to warrant taking the additional risk and hence push us towards allocating to shorter-dated credit strategies. Hawkish central banks and the risk of oil price spikes keep us from moving into longer-dated bonds.

While bonds are unlikely to protect portfolios against inflationary shocks, their diversification benefits may re-emerge when markets become concerned about growth. Recent AI-related wobbles are a case in point, as broader economic worries prompted investors to seek protection in fixed income.

> **"We are clearly in a late cycle. And you must participate in a late cycle. If you remember 1999 when the market was very expensive, and the Nasdaq almost doubled - you couldn't avoid being in the equity market. At the same time, you have to prepare the portfolio for a possible rotation, balancing the momentum trade with quality and value styles."**



Mario Baronci
Portfolio Manager

4: Diversifying for the moment

The diminishing role of bonds as diversifiers poses a challenge to multi-asset investors. Instead of splitting allocations simply between equities and bonds, we take two broad approaches to hedging to help manage

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portfolios through this late cycle: statistical and contractual.

'Statistical' hedges like gold, inflation-linked bonds, and crude oil each hedge specific risks in portfolios. Maintaining a relatively consistent basket of these assets can help create a more resilient 'all-weather' portfolio.

A basket of statistical hedges

Risk	Government bonds	Gold	Commodities	Crude oil	Inflation linked bonds	Defensive FX (JPY/CHF)	Short USD
Growth downside	■						
Higher inflation			■	■	■		
Geopolitcal shock	■	■	■		■	■	
Fiscal profligacy		■					
US institutional credibility		■				■	■

Source: Fidelity International, November 2026.

'Contractual' hedges are those where the pay-off is explicitly linked to the risk being covered. Equity put options are the clearest example: if equity markets fall sufficiently, the option contractually increases in value, helping to limit drawdowns and reduce volatility.

The advantage of this contractual protection is certainty - investors know which risk they are targeting and can reduce its impact on portfolios. The disadvantage is cost. If the risk does not materialise, the premium becomes a drag on returns.

Investors can also mitigate concentration risk through regional breadth, adding factor exposures that tilt away from market-cap weights, and diversifying more broadly across factors and styles.

Private assets offer another source of diversification. It is important to draw on relationships with general partners to understand what they are seeing in their portfolio companies, how financing and exit conditions are changing, and where market volatility is creating opportunities. Investors can then test their perspectives through their own underwriting to decide where to commit capital in 2027.

In private equity, managers in the mid market look preferable for the long term through earnings growth and stronger cash conversion. We look for businesses that can attract both strategic buyers and larger sponsors, giving managers more flexibility on exit. For private credit, senior direct lending provides a base of contractual income. Where credit market weakness creates attractive entry points, we would back managers specialising in special situations to add a source of return from restructurings and recoveries.

> "Technology sector earnings growth has driven stellar stock market returns but has also increased concentration in many markets across the world. We are actively allocated to AI earnings via specific technology positions - we want exposure to the growth drivers. But we have been deliberately seeking areas of the market that diversify away from technology risks to ensure our portfolios have balance and resilience: value-focused equities in both the US and across emerging markets, and specifically targeted exposure in India and Europe, for instance."



Caroline Shaw
Portfolio Manager

A way through

We live in a world in which much can change in a short time. The above outlines what we *expect* to happen, but we will be watching certain areas keenly and will pivot our views if necessary. These include any developments in the ongoing conflicts in Iran and Ukraine, plus the rising threats posed to countries' cybersecurity; the Fed's response to incoming inflation data; further US trade tensions and how these impact Asia Pacific nations in particular; how a Democratic Congress affects the AI build-out; and whether AI adoption or monetisation disappoints. Flexibility will be critical in the year ahead.

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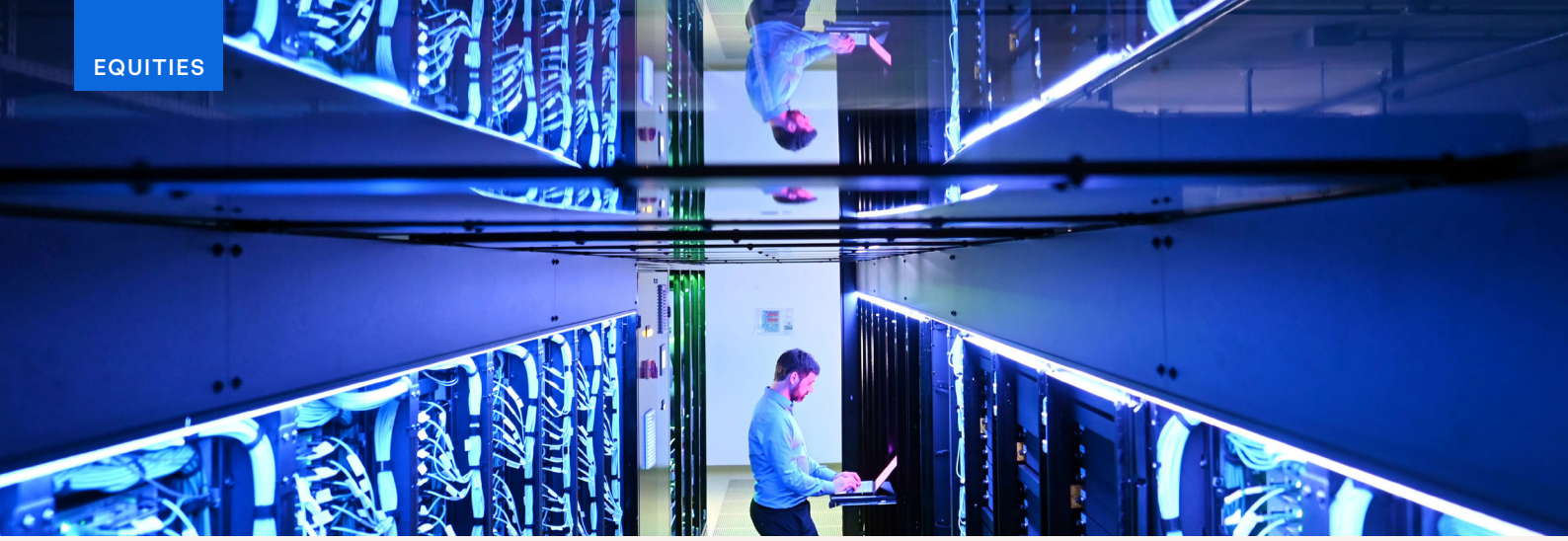


The earnings test

Further earnings growth and less demanding valuations support a positive view on equities. The test for 2027 is not just whether earnings continue to rise, but how much cash companies generate and how much capital that expansion requires.



Niamh Brodie-Machura
Chief Investment Officer, Equities

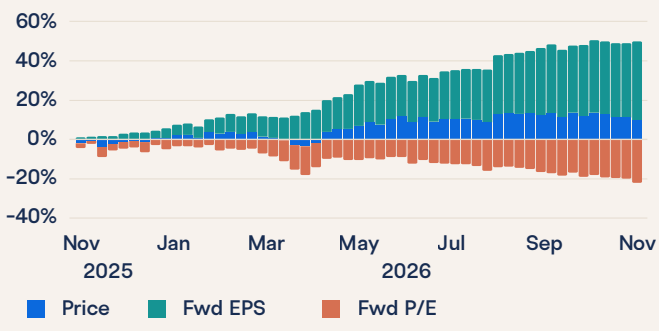
TOP EQUITY CONVICTIONS:

- **The AI story:** focus will intensify on where capital is being used effectively. We opt for hyperscalers, and semiconductor suppliers with clear competitive advantages and pricing power.
- **US and European banks** are benefitting from resilient lending, higher yields, and the efficiencies AI has brought to operations.
- **Industrials** are positioned for a broadening cyclical recovery. Defence, infrastructure, and aerospace investment are driving demand, but opportunities are emerging in high-quality, rate-sensitive businesses that have yet to participate fully in the recovery. Favour companies with pricing power and the ability to protect margins against cost inflation.

I am positive on stocks for 2027. Fidelity's analysts estimate global earnings will have risen 33 per cent by the end of 2026, and they expect an increase in the high teens in 2027. That is a slower pace, but still strong growth from a much higher base.

Valuations also offer a better starting point. The MSCI World index is trading at around 17 times forward earnings, compared with roughly 20 times heading into 2026. If companies deliver the expected profits, and multiples broadly hold, earnings growth should support further returns.

The source of returns
Cumulative weekly change (MSCI AC World)



Source: Fidelity International, LSEG, November 2026.

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Despite the volatility, the strongest forecasts remain in technology. Banks also look attractive, while parts of the industrials sector have scope for recovery. For tech this is a 'show me' year: companies will need to demonstrate that their heavy investment can deliver. The main risk is that disappointing returns on AI investment, or tighter financing conditions, undermine both earnings and valuations.

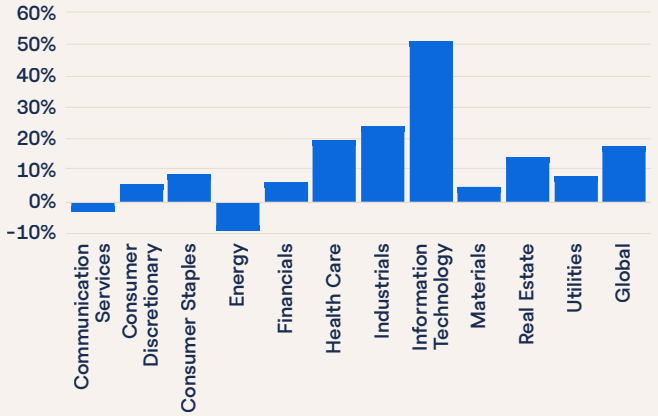
AI demand and the returns behind it

Individuals and businesses are still a long way from making full use of what AI can do. That is an important underpinning for the continued growth in demand for AI as a product. Companies have considerable scope to become more efficient by moving applications from trials into everyday operations. But for investors, the upside is less about faster adoption than it is about greater confidence in the durability of that demand. Evidence that customers can earn attractive returns across a wider range of applications would support continued spending.

Those customer benefits do not guarantee attractive returns for every supplier or its shareholders. Some high margins reflect scarcity pricing, so we need to assess what businesses can earn once capacity expands.

Tech earnings growth still surging

Fidelity analyst forecasts ($)



Source: Fidelity International, November 2026.

The technology should keep improving. Its ability to interact reliably with the physical world is at an early stage, with substantial potential in robotics and industrial processes. We see these capabilities primarily as a longer-term driver of revenue growth and do not need those gains to arrive in 2027 to support the near-term case.

Despite local opposition to data centre development in some markets, our technology analysts expect AI infrastructure capital expenditure to increase in 2027. Memory and select hardware shortages will persist, with meaningful additional capacity before 2028 unlikely in some markets. Those shortages should support suppliers' pricing and earnings through 2027.

Power and grid constraints have different effects and the particular situations and profiles of projects and companies here will be vital. Those that have secured permits and power supplies can bring capacity into use while others wait. Delayed connections may strengthen existing operators' positions but push back equipment orders for new projects. Additional construction and financing costs can also reduce project returns. I would expect investment to favour regions that are able to provide power, timely approvals, and reliable grid access.

> **"The sector and style rotations that characterised markets in 2026 are likely to persist into 2027, as investors balance the long-term transformative potential of AI with the shorter-term investment cycles required to realise it."**



Christine Baalham
Portfolio Manager

As to what actually looks attractive for investors, our analysts favour established cloud platforms with diversified revenues, strong cash generation and installed capacity, alongside selected semiconductor suppliers with competitive advantages and well-funded customers.

For companies relying on external capital, we also need to ask what funding will cost in 2027 and what that leaves for shareholders.

"Cash flow discipline does not require every new project to pay back in 2027," says technology analyst Jonathan Tseng. "An innovation-led business may justify substantial investment before generating free cash flow. We need evidence that returns can exceed the cost of capital, and that funding can last if commercial progress takes longer than planned."

For established businesses, it is however important that new spending is assessed separately from existing profitability: a strong core can fund poor expansion decisions for some time.

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Opportunities beyond technology

With the macro environment still broadly supportive, our view on US banks is constructive but it is also highly selective. Earnings growth is likely to moderate but should remain healthy and our analysts expect loans to grow in the mid-single digits without a significant deterioration in credit quality. Some easing of regulation could free up capital for lending, dividends and share buybacks, while AI-driven efficiency gains make a more meaningful contribution to profitability. Implementation costs and savings passed to customers will determine how much shareholders retain.

> **"[In industrials] we are finding established companies at valuations that look attractive against their earnings potential through the cycle. They do not need another investment boom. Returning customer demand would help them use existing capacity more fully and improve profitability. "**



Ashish Bhardwaj
Portfolio Manager

In Europe, valuations still appear to understate the improvement in the underlying franchises. Deposit competition and the risks from credit losses both bear watching, but lending is recovering.

"Banks now combine strong capital and liquidity positions with improved efficiency and profitability," says Fidelity sector analyst Omar Fall. "We see a compounding story in the sector, not just a rates trade."

The opportunity in parts of the industrials sector is different. AI-related investment and commercial aerospace have been strong, but many interest-rate-sensitive businesses are still struggling to recover from the 2023–2025 downturn. Cost inflation continues to put pressure on margins. We want to be paid for the risk of waiting, rather than buying on the assumption of a rapid recovery.

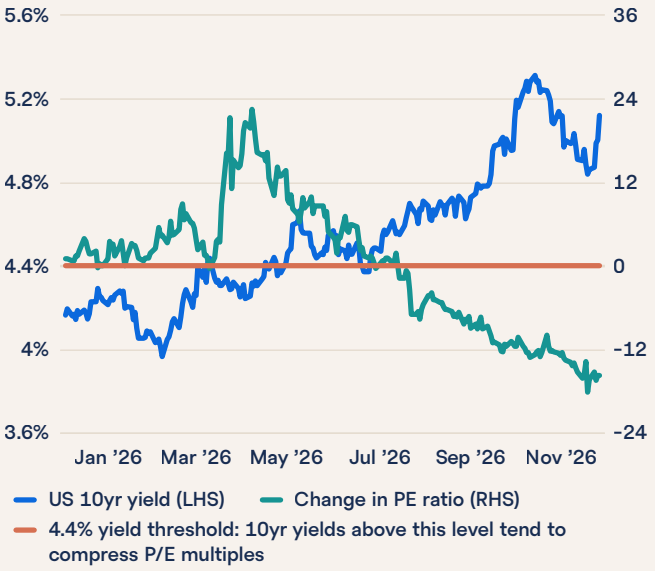
"We are finding established companies at valuations that look attractive against their earnings potential through the cycle," says portfolio manager Ashish Bhardwaj. "They do not need another investment boom. Returning customer demand would help them use existing capacity more fully and improve profitability."

In other areas, lower energy costs from improved supply could ease pressure on household budgets and help consumer spending recover. But housing and larger purchases remain sensitive to borrowing costs, and we would not assume a synchronised recovery.

The risks from bond and credit markets

Bond yields have already risen, and equity multiples have fallen, but we cannot be certain the adjustment is complete. Persistent fiscal deficits could yet provoke a loss of confidence in government finances and another abrupt rise in yields. Higher yields reflecting stronger growth can be accompanied by better earnings; a fiscal shock offers no such reassurance. Equity valuations can come under pressure even if profits hold up.

Where yields start to hurt
US 10yr yield vs change in S&P 500 PE multiple (YTD)



Source: Fidelity International, LSEG, November 2026.

A separate risk is that isolated credit losses lead to a broader reassessment of credit risk. Investors could demand higher spreads and lenders become less willing to extend credit, affecting refinancing and investment across the economy as well as banks' own earnings. Government bond yields need not rise for corporate financing conditions to tighten. I will be watching for evidence that credit losses are becoming more widespread and lenders are curtailing credit, rather than treating every isolated loss as a sign of wider trouble.

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Neither shock is my central expectation for 2027, but both could materially weaken the equity case. Tighter credit combined with disappointing AI investment returns would be particularly damaging. Other sectors may not be able to offset a slowdown in technology if they, too, face more expensive or less available finance.

Strong cash generation and manageable refinancing needs matter in that context. They will not protect share prices from a market-wide repricing, but they reduce the risk that a financing problem causes lasting damage to a business or to its value to shareholders.

The test for 2027

We do not need a repeat of 2026's earnings growth, or a return to 20 times forward earnings, to find attractive opportunities in the year ahead. We do, however, need confidence that companies can deliver the profits expected, convert them into cash, earn returns above the cost of capital, and fund their plans through less favourable conditions. That is the earnings test for 2027.



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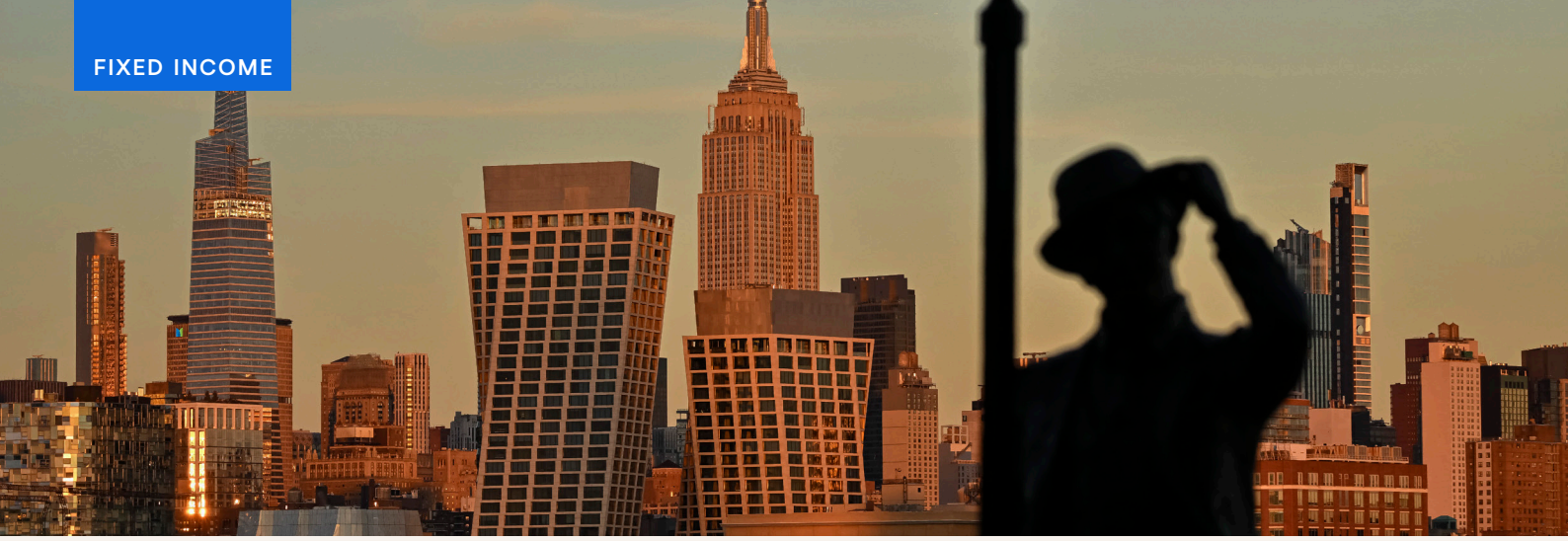


Get paid to be patient

At some point - possibly in 2027 - the balance of risks will shift from inflation to growth, and it will pay to hold duration. In the meantime, fixed income investors should take advantage of the carry the market is offering.



Marion Le Morhedec
Chief Investment Officer, Fixed Income

TOP FIXED INCOME CONVICTIONS:

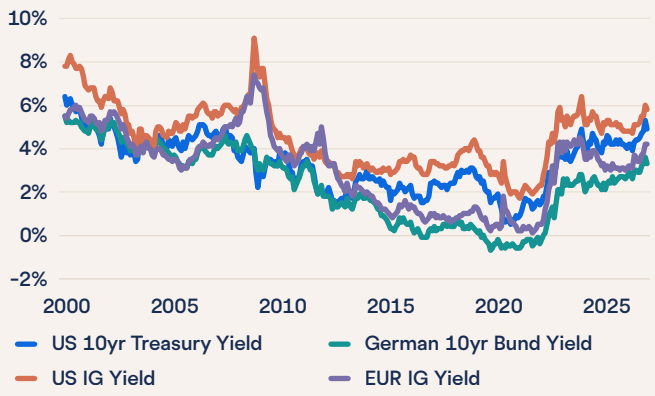
- **Short-dated credit:** less sensitive to further increases in yields, and less exposed to the AI theme.
- **Select emerging markets:** can offer attractive carry with better fiscal dynamics than some developed market peers.
- **Cross-market opportunities:** favouring traditional infrastructure assets versus data centres, for example, or selected euro investment-grade names versus US peers.

If you take one message away from this fixed income outlook, it should be: don't try to time the turning point for duration.

Duration's time will come. But not only is market timing a notoriously unreliable endeavour, there's also little incentive to take such a risk. Yields today are a lot higher than they have been over most of the last two decades.

As we head into 2027, therefore, investors should focus on generating high-quality carry while keeping a watchful eye for opportunities to extend duration. The extra carry on offer compared to recent years gives investors a cushion to absorb further volatility, which we certainly anticipate. Indeed, recent stock market action is a reminder that market conditions can and do change quickly, and that it pays to stay prepared.

More yield, less hunting



Source: Fidelity International, Bloomberg, November 2026.

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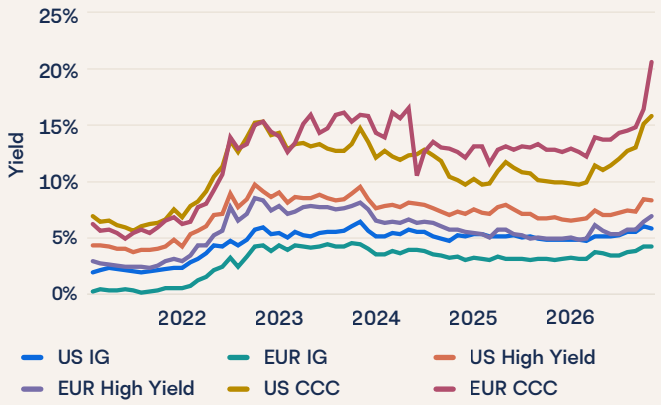
We are also starting to see more dispersion in credit markets.

“Growing dispersion gives us greater scope for active management, including ways to hedge against the AI trade that has become the dominant driver of many investors’ portfolios,” says portfolio manager James Durance. “It also highlights the importance of avoiding weaker issuers.”

Credit dispersion has become more pronounced



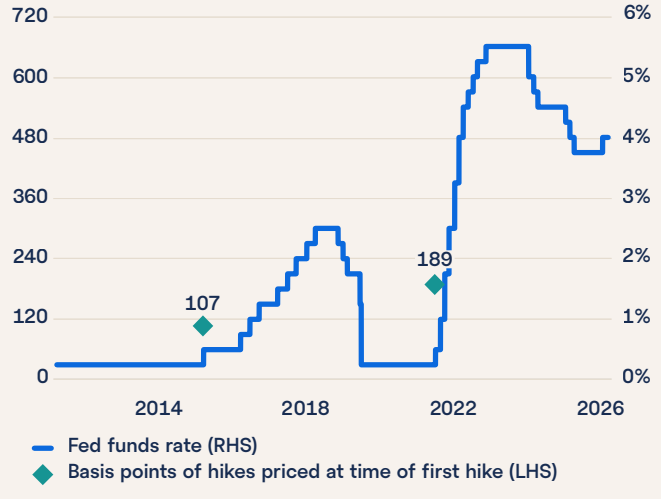
Source: Fidelity International, Bloomberg, November 2026.

Higher for longer, but not necessarily forever

A big reason we advocate patience is that yields could still move higher from here. In the US, inflation remains stubbornly above the Federal Reserve’s target. Economic growth has also shown resilience so far, suggesting further interest rate hikes may be needed to bring inflation down, while fiscal pressures and concerns about bond market supply could also keep yields elevated.

History also suggests that investors have a habit of underestimating the scale of a hiking cycle at its outset, adding a further note of caution.

Interest rates could go higher than you think



Source: Fidelity International, Deutsche Bank, Bloomberg, St Louis Fed, November 2026.

However, at some point in 2027, borrowing costs may start to weigh on economic activity. Keep in mind too that the composition of US growth has shifted markedly towards AI and data centre investment over the last few years. In other words, capex rather than consumption is centre stage, and capital spending is famously prone to sharp, procyclical reversals when animal spirits turn cautious.

This is why we want to look for opportunities to add duration selectively. In the meantime, exposure to high-quality short-dated credit, which is less sensitive to further increases in yields, offers a way to generate income for a portfolio.

“Persistent inflation pressures from higher commodity prices and geopolitics have created uncertainty around central bank policy,” says Durance, “reinforcing our conviction in the short-duration part of the curve, where investors can capture attractive income with less exposure to rising yields.”

Short-dated credit also tends to be less exposed to the AI theme, given that AI borrowing has been concentrated at the long end.

> **“Persistent inflation pressures from higher commodity prices and geopolitics have created uncertainty around central bank policy, reinforcing our conviction in the short-duration part of the curve, where investors can capture attractive income with less exposure to rising yields.”**



James Durance
Portfolio Manager

AI credit supply is raising eyebrows

One example of credit dispersion came from Meta’s bond offerings at the start of November 2026. The fundraising included the company’s first ever sale of euro-denominated bonds, issued during a period of heightened market volatility. Despite strong demand, Meta issued the new debt at a notable discount.

The episode illustrates both the ongoing enthusiasm for the AI trade and rising circumspection among investors. Market participants have noted the implications for future

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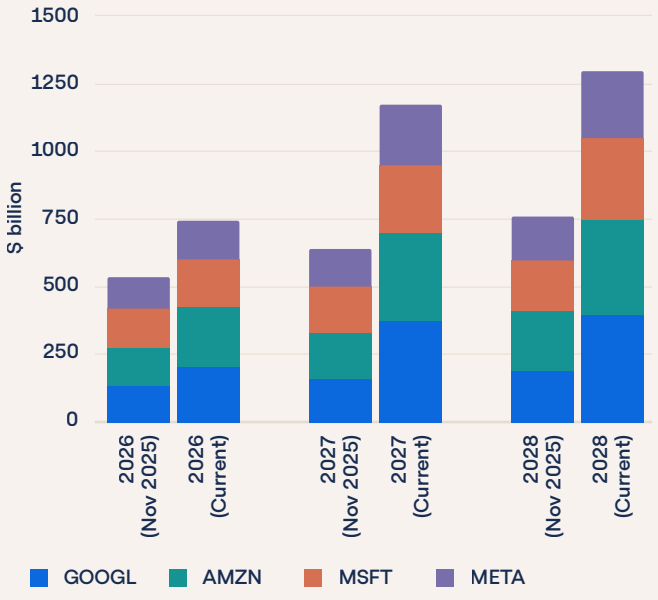
funding needs of AI infrastructure spending, and what that means for bond market supply now that hyperscalers have moved beyond financing their AI capex from free cash flow.

AI capex revisions point to sustained funding needs
Estimates from Nov 2025 vs current estimates



Source: Fidelity International, Morgan Stanley, 1 October 2026.

On the one hand, the Meta example shows there are opportunities in the current market to earn good yields from solid investment-grade credits. On the other, the potential scale of future AI-related issuance suggests it would also be prudent to look at how to hedge AI exposure by investing in other areas. Meta's November issue notwithstanding, credit spreads remain historically tight, and investors should be sure they're satisfied that the compensation on offer justifies the risk being taken.

Looking for 'anti-AI'

In the infrastructure space, assets like motorways and airports look more attractive right now than AI-related infrastructure. Leverage tends to be lower, track records are longer, and there is much less sensitivity to economic growth.

Regional dispersion meanwhile has created relative-value opportunities. French sovereign weakness has led to an unusual inversion. At one point in October, almost 40 per cent of French investment-grade corporate bonds traded at lower yields than comparable government debt.

The spillover from the volatility in French government bonds has weighed on European investment grade, creating selected opportunities in European banks, insurers, and corporate hybrids. And, of course, it has improved the relative value of French (as well as Italian) government bonds compared to high-grade corporate debt. Selective government-spread exposure appears more inviting than broad corporate credit risk. However, we still retain a cautious outlook on Europe for 2027, given ongoing political uncertainty and the likelihood of further rates volatility.

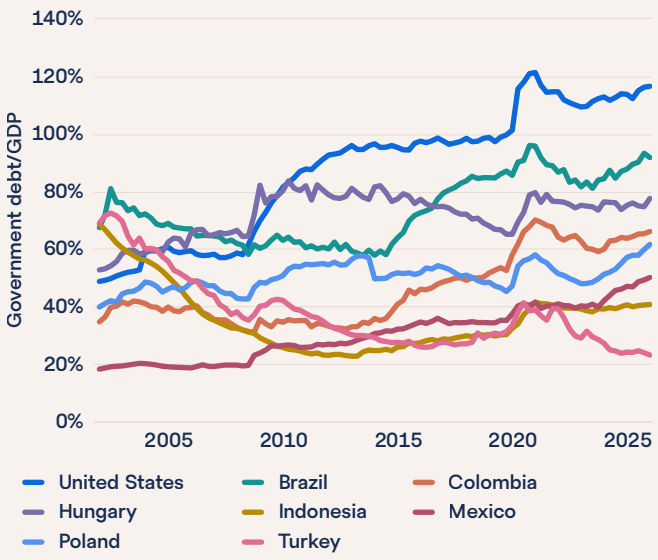
Emerging market debt meanwhile continues to offer attractive all-in yields relative to the underlying risks.

"Latin America benefits from high real yields and exposure to commodities, while in Europe and Africa several countries have made progress in reducing fiscal vulnerabilities through stronger revenue collection and greater spending discipline," says portfolio manager Philip Fielding.

The Middle East has proved resilient in the face of the conflict in Iran, while initial concerns about supply disruptions in Asia, as oil shipments were unable to transit the Persian Gulf, have largely proved unfounded. Higher petrol, diesel, and jet fuel prices have generated some inflationary pressures, but central banks have generally reacted prudently, limiting the risk of inflation expectations becoming de-anchored.

In many cases, emerging market sovereign fundamentals compare favourably with those of developed market peers.

Is the script flipping for EMs vs DMs?



Source: Fidelity International, Macrobond, Federal Reserve, October 2026.

Economic growth is higher, public debt burdens are generally lower, populations are younger, and companies are more conservatively financed. This creates differentiated sources of return for investors that should

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be accessed via a strategic allocation rather than a tactical approach.

Finally, the technical backdrop remains supportive for the asset class with net bond supply relatively low, particularly when compared with substantial issuance volumes in the developed market technology sector.

> **"Latin America benefits from high real yields and exposure to commodities, while in Europe and Africa several countries have made progress in reducing fiscal vulnerabilities through stronger revenue collection and greater spending discipline."**



Philip Fielding
Portfolio Manager

Active investors can afford to wait

AI-related growth, persistent inflation stoked by the Iran conflict, and an oversupply of debt driven by AI capex and government borrowing have made 2026 a challenging year for fixed income, underlining the importance of being patient and selective. Those same challenges have also helped make fixed income a more attractive asset class than it has been for some time.

In the months ahead, credit dispersion will allow for selective risk taking as investors wait for more clarity on inflation, the economy, monetary policy, and even geopolitics. Duration, as ever, remains valuable as a protection against a sharp slowdown, although yields can still go higher from here. In the new year, patience will be a virtue.



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Asia's capex race

Asia enters 2027 as global trade fragments and the AI cycle matures. Shifting supply chains and economic priorities will see divergence across countries, sectors, and companies, putting a premium on selectivity.



Matthew Quaife
Global Head of Multi Asset



Peiqian Liu
Asia Economist

TOP REGIONAL CONVICTIONS:

- **For total return investors:** Asia's 'picks and shovels' of AI remain attractive. At the same time, recent market volatility reinforces the need for diversification. A barbell strategy combining South Korean and Indian equities makes sense to us. Reflation and corporate reforms continue to favour Japanese banks and mid-caps.
- **For income investors:** Asian high-yield bonds offer attractive carry relative to developed-market peers, supported by improving credit fundamentals.
- **For defensive investors:** local-currency government bonds in Australia and New Zealand offer potential diversification and resilience.

The global AI explosion has led to a surge in exports from those Asian countries that produce the technology's building blocks. But the boom also threatens to widen the gap between economies that can participate in the AI investment cycle and those that can't.

Governments across the region are fighting to fill the gaps. The drivers of Asia's economic momentum should therefore broaden in 2027, with a wave of capital spending that seeks to build on the region's manufacturing strengths.

A capex wave

The investment cycle is already taking shape. Asian economies have ramped up investment in AI infrastructure. At the same time, the structural push for supply-chain diversification and economic security is providing more durable support for aggregate demand.

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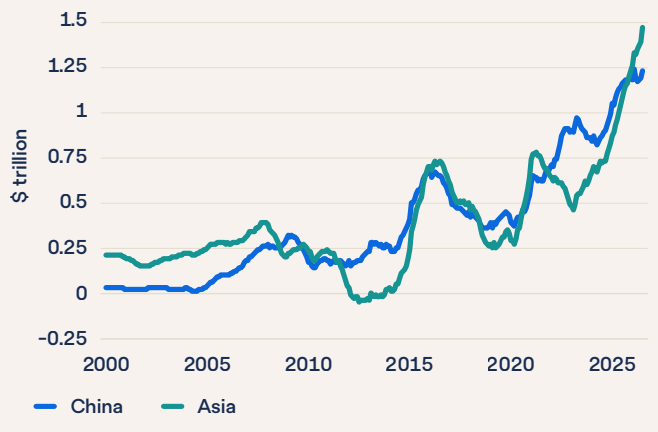


Source: Fidelity International, Macrobond, IMF, MOF, November 2026.

China's latest Five-Year Plan emphasises a continued shift away from property-led growth towards investment in advanced manufacturing, technology, and new infrastructure. This capex-led model is likely to form a solid base for economic activity in the country in the year ahead.

Japan meanwhile has identified 17 strategic industries where public investment aims to crowd in private capital and rebuild manufacturing capacity over the long term.

> "We particularly favour Japanese mid-cap companies, which are well positioned to benefit from rising real wages and improving domestic demand. We also see opportunities in Japanese banks, where gradually rising interest rates are supporting profitability."



George Efstathopoulos
Portfolio Manager

South Korea and Taiwan, the region's semiconductor powerhouses, are capitalising on strong AI-related demand to expand investment across the semiconductor supply chain.

One potential beneficiary of this capex is Japanese automation. "We are seeing a strong recovery in Japan's automation capex cycle, supported by labour shortages, manufacturing reshoring, and semiconductor investment," says Kitty Yang, a multi asset analyst who has been looking into global opportunities in robotics and automation.

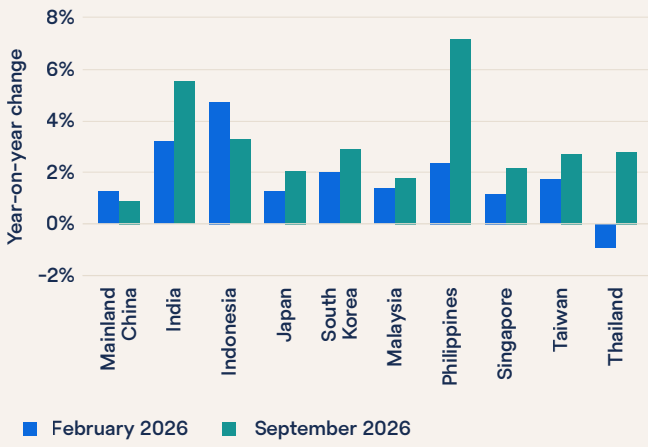
"Despite a jump in machine tool orders in September and October, Japanese automation names have seen significant valuation de-ratings, creating potentially attractive entry points as earnings recover."

Alternative paths

The sustained rise in spending could support job and wage growth and, in turn, boost consumption, aiding Asia's next phase of expansion. But not everyone is winning.

An uneven growth backdrop is likely to lead to diverging monetary policies. The energy shock that rumbled through the region as a result of the chokehold on oil exports in the Gulf earlier in the year, together with the strong investment demand, has pushed up inflationary pressures in much of Asia. But central banks, particularly in economies with tepid growth, confront a difficult trade-off: containing inflation without further weakening domestic demand.

Because much of Asia's inflation is a result of rising input costs rather than domestic overheating, we expect monetary tightening in the region to be selective in 2027, leading to a broader spectrum of interest rates and currency performance.



Source: Fidelity International, Bloomberg, November 2026.

China's two-speed economy is marked by substantial growth in high-tech manufacturing and exports on one side, and a weak property market and subdued consumer spending on the other. Rather than relying on large-scale stimulus, policymakers are directing fiscal resources towards strategic priorities, including technology.

This targeted approach should sustain growth in chosen sectors while providing limited support to the wider economy, keeping inflationary pressures subdued. Given uncertainty over China's domestic demand recovery, we

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favour areas aligned with Beijing's priorities, particularly those swept up in the push for greater self-sufficiency.

With Japan emerging from decades of deflation and real wages beginning to rise, the Bank of Japan is expected to continue its gradual policy normalisation. Unlike elsewhere in the region, Japan's inflation is more home-grown, reflecting rising wages and local demand, which strengthens the case for further rate hikes.

George Efstathopoulos, a Singapore-based multi asset fund manager, is bullish on the outlook for Japanese equities, citing strong earnings growth driven by corporate governance reforms, a competitive currency, and Japan's important role in global industrial supply chains.

"We particularly favour Japanese mid-cap companies, which are well positioned to benefit from rising real wages and improving domestic demand," says Efstathopoulos. "We also see opportunities in Japanese banks, where gradually rising interest rates are supporting profitability."

> **"The AI investment cycle remains structurally intact, with the latest earnings season showing continued progress in cloud revenue growth. Nevertheless, increased scrutiny on the data centre build-out and rising financing costs may lead to some moderation from the previous hype. Hence, selective exposure on high-quality names is increasingly important."**



Joseph Zhang
Portfolio Manager

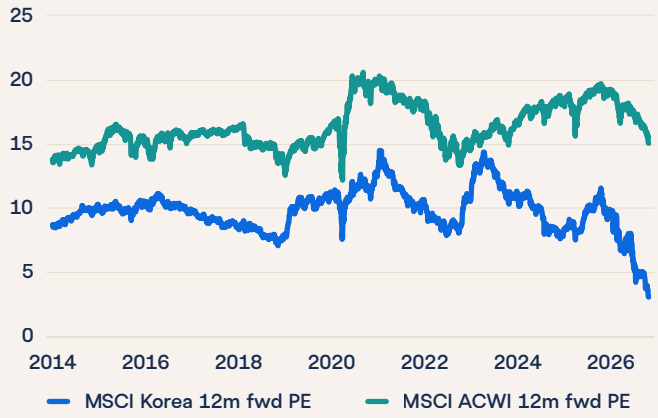
AI's next phase

AI adoption is broadening across the region, including in China, where government and corporate efforts to integrate AI into daily life and manufacturing are rapidly diffusing the technology across the domestic ecosystem (for more on the earnings test for AI in 2027 see our equities outlook on page 8).

"The AI investment cycle remains structurally intact, with the latest earnings season showing continued progress in cloud revenue growth," says Joseph Zhang, a multi asset fund manager in Hong Kong. "Nevertheless, increased scrutiny on the data centre build-out and rising financing costs may lead to some moderation from the previous hype. Hence, selective exposure on high-quality names is increasingly important."

Asia's 'picks and shovels' stocks look compelling following the significant de-rating over the last six months. South Korea's memory names stand out for their strong earnings outlook and low valuations - if those earnings are delivered. Further corporate reforms are also likely to boost shareholder returns and help narrow the Korean discount.

South Korean stocks' discount to global peers widens



Source: Fidelity International, Bloomberg, November 2026.

For those concerned about market concentration, parts of Asia have stepped up as compelling diversifiers. Take India. The market has been out of favour with investors, but with growth underpinned by domestic consumption, infrastructure spending, and services rather than AI capex, it offers an interesting alternative for those seeking returns beyond the tech story. The government's continued broad-based capex push should support domestic demand, adding to the appeal of Indian equities.

Japanese banks and mid-caps, as mentioned above, could offer another source of diversification, given their greater exposure to the domestic economy versus the global AI cycle.

The refuge of fixed income

If the AI capex cycle slows and weighs on headline GDP growth, bonds could grow in appeal. Within Asia's fixed-income markets, dollar-denominated high-yield bonds offer attractive yields relative to developed-market peers and a broadly comparable duration profile. Meanwhile, credit fundamentals are improving: the upgrade-to-downgrade ratio has trended higher, while default rates

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have declined significantly from their 2022 peak. We expect these trends to continue in 2027.

Local-currency government bonds in New Zealand and Australia could also provide diversification. Their relatively strong fiscal positions make them attractive in a world where governments' prudence is increasingly being called into question. Fundamentals do not necessarily point to material rate hikes from here, given Australia's sensitivity to global financial conditions and the continued softness of New Zealand's economy.

Drive carefully

While our macro forecast remains constructive, there are several hurdles that could see Asia's growth story veer off course in 2027. A jump in energy prices would fuel inflation across the region, while a severe El Niño, another supply-side shock, could hit Southeast Asia particularly hard, with disruption to agricultural production pushing up food prices and weighing on growth.

China's manufacturing dominance threatens to exacerbate trade tensions with the EU and US, where policymakers are increasingly focused on protecting domestic industries. Given the deep integration of regional supply chains, these frictions could spill over to the rest of Asia.

And, of course, a slowdown to the AI story would have significant economic implications for semiconductor-heavy economies such as South Korea and Taiwan.

That said, there may be a silver lining to the AI-led corrections of 2026. If retail enthusiasm moderates, institutional investors are likely to play a greater role in Asian markets, putting a greater focus on fundamentals over momentum.

A widening capex cycle, diverging policy paths, and an evolving AI boom should also create greater dispersion across economies, sectors, and companies in 2027. Taken together, these shifts should make earnings growth and shareholder returns more important drivers of Asia's investment performance.



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Prices are cyclical, change is structural

Broader investment opportunities, regulated access, and programmable market infrastructure are bringing traditional and digital finance closer together.



Emma Pecenicic
Head of Digital Assets Distribution



Giselle Lai
Digital Assets Strategist

Price movements continue to dominate digital asset headlines. Yet some of the most consequential developments in 2026 have taken place beyond the price charts.

The next 12 months should see a continuation of some of those themes: regulated investment products will increase access to crypto assets, institutional standards will continue to evolve, and tokenisation will move further from experimentation into live market applications.

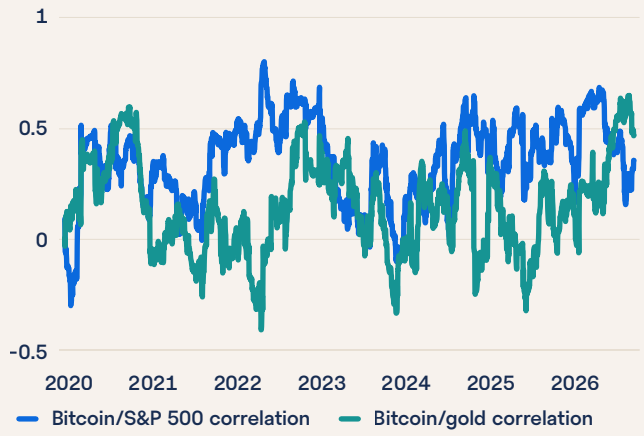
This will enable digital markets to broaden their access across geographies and investor segments through 2027, while deepening their utility and range of investment outcomes. They will look and function increasingly like traditional financial markets, incorporating more familiar institutional disciplines around portfolio construction, collateral management, and risk-adjusted returns.

From diversification to differentiated outcomes

For much of the past two decades, the traditional 60/40 portfolio benefitted from a familiar relationship: equities provided growth, while bonds offered income and diversification. The post-pandemic inflation shock and subsequent interest-rate reset challenged that balance, prompting investors to look more broadly for complementary sources of returns.

Bitcoin has entered that conversation more and more. It combines sensitivity to investor risk appetite with the growth characteristics of a technology network, plus gold-like scarcity. At the same time, its correlations with equities

Bitcoin's correlation with equities and gold is constantly changing



Note: Y-axis is a ratio, where 1 shows a perfect positive correlation and −1 a perfect negative correlation.
Source: Fidelity International, Bloomberg, November 2026. Data as of 30 September 2026.

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and gold have also varied across market conditions, suggesting that Bitcoin does not fit neatly into a single traditional asset category and has the potential to offer a differentiated role in portfolios.

The problem historically has been Bitcoin's price volatility, and while price fluctuations remain a defining characteristic, successive cycles have shown signs of shallower drawdowns. Greater institutional participation and market depth could support this maturation, potentially accompanied by more moderate return expectations.

"Operational resilience will increasingly become a common institutional benchmark across both crypto and tokenised assets."

Investors are also exploring sources of income beyond Bitcoin. Proof-of-stake networks such as Ethereum and Solana compensate participants for helping secure and operate blockchain networks rather than for lending capital to a borrower. At time of writing, they offer annual staking yields of approximately 2.6 per cent and 5.4 per cent respectively[1]. This creates a distinct source of yield compared with traditional fixed-income investments, although overall returns remain exposed to token-price volatility and network-specific risks.

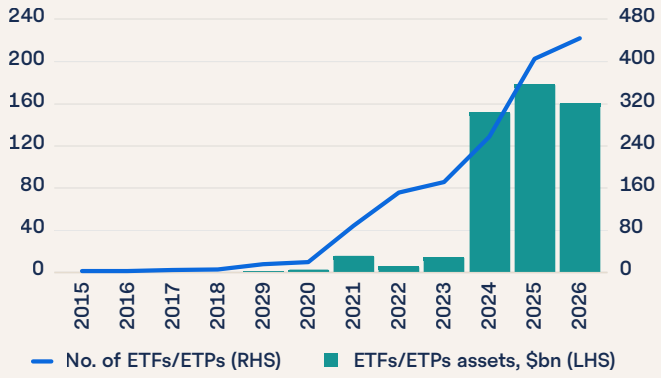
Meanwhile, as highlighted elsewhere in this outlook, investors will want to capture beneficiaries of the AI investment cycle that lie beyond concentrated exposure in large-cap technology companies. Blockchain networks supporting programmable payments, tokenisation, and emerging AI applications could attract greater interest in this environment.

Wrapping the risk

The expansion of regulated crypto exchange-traded products (ETPs) has fundamentally changed how investors can participate in digital assets. What began primarily with Bitcoin has evolved into a range of exposures, with progress in income-oriented and multi-asset strategies likely to follow where regulatory frameworks permit.

These vehicles enable investors to incorporate crypto assets into established portfolio construction, trading, and risk-management processes.

Digital assets ETPs have increased in number and size



Source: Fidelity International, Bloomberg, ETFGI, November 2026.

Institutional investors are likely to lead that adoption in 2027. They now account for around 36 per cent of total US spot Bitcoin ETF assets, up from roughly 25 per cent a year earlier[2], with investment advisers alone representing around 19 per cent, compared with 13 per cent previously.

Listed products are also capturing more trading activity, with volumes increasingly comparable to those on crypto spot exchanges and, at times, surpassing them.

As institutional participation deepens, operational resilience becomes equally important. According to DefiLlama, a digital assets and analytics platform, more than USD $8.8 billion in cryptocurrency was stolen year-to-date in 2026 ($6.3bn of which was taken in just one theft from the Binance platform in October). It marks the largest year on record for cryptocurrency theft by value, with major incidents exposing vulnerabilities in private-key management, transaction authorisation, and custody infrastructure. While regulated investment vehicles cannot fully eliminate these risks, they can reduce the operational burden borne directly by investors through established custody, governance and oversight arrangements, subject to the relevant product structure and jurisdiction.

1 Compass Staking Yield Reference Index Ethereum (STYETH Index), Compass Staking Yield Reference Index Solana (STYSOL Index), as of 19 October 2026
2 Q2 2026 Form 13F from Bloomberg, as of 31 August 2026

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Operational resilience will increasingly become a common institutional benchmark across both crypto and tokenised assets. Whether an asset is digitally native or traditionally issued, investors will expect the same rigorous standards of cybersecurity, governance, business continuity and third-party oversight. As the market matures, the quality of the investment structure and its supporting infrastructure may become as important as the underlying exposure itself.

Tokenisation: Putting assets to work

The emergence of tokenised funds, equities, and ETFs illustrates how familiar investments can operate on digital rails, potentially enabling faster settlement, broader distribution, and greater asset mobility. But putting an asset on-chain is just the first step: looking to 2027, tokenisation will be measured less by how much value is recorded on-chain and more by how effectively that value can be put to work.

As securities and funds become more transferable, the money used to settle transactions and the collateral supporting them must keep pace. This is why tokenised liquidity and highly liquid collateral will lead the next phase of adoption, ahead of more complex or illiquid real-world assets. These instruments address immediate institutional needs, from managing cash across time zones to improving collateral mobility and reducing funding frictions.

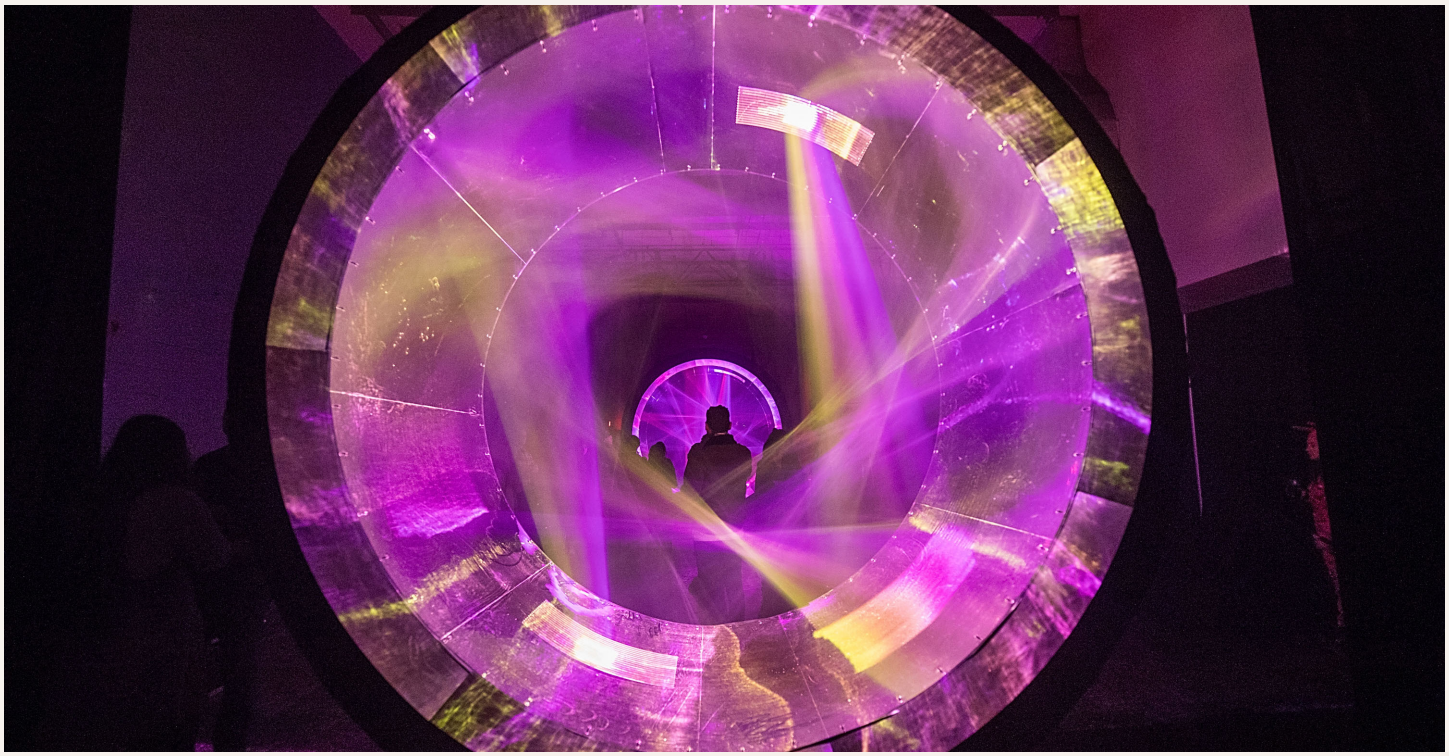
At the same time, the market is progressing beyond digital representations of existing assets towards digital-native structures designed for blockchain-based operations from the outset. This approach will likely grow in importance for new tokenised fund propositions, enabling ownership records, transfers, and investment processes to be more closely integrated.

Regulation is beginning to support this evolution, with the US, UK, and Hong Kong all introducing frameworks that enable wider practical use of tokenised assets. Looking to 2027, more jurisdictions are expected to bring tokenisation onto their regulatory agendas, while those with established frameworks will focus on providing greater clarity around secondary-market trading, supporting a wider range of tokenised assets, and enabling more practical use cases. Balancing innovation with investor protection will remain essential to supporting adoption.

Towards a hybrid

As digital assets mature, investors are less likely to face a choice between traditional and digital finance, but rather a financial system that combines the strengths of both.

The opportunity for investors extends beyond gaining exposure to a new asset class. It is about accessing a broader set of investment outcomes through infrastructure that can make capital more accessible, mobile, and productive. Prices will continue to move through cycles. The more enduring transformation will be how assets are invested, held, and used.



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Contributors

Investment Writers
Judy Chen
Patrick Graham
Toby Sims
Ben Traynor

Edition Designer
Mark Hamilton

Graphic Designer
Oliver Godwin-Brown

Production Lead
Toby Sims

Managing Editor
Seb Morton-Clark

Image credits

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Page 4: A Large Circular Fountain In Nanning, China. 12 September, 2022.
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Page 8 and 11: Baden-Wuerttemberg, Karlsruhe: At the Karlsruhe Institute of Technology (KIT), a new high-performance computer illuminated with integrated LED light is presented (it is reflected on the ceiling). 19 July, 2021.
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Page 12 and 15: The Empire State Building is seen during sunset in New York on October 27, 2026. (Photo by ANGELA WEISS / AFP). 27 October, 2026.
Credit: AFP via Getty Images

Page 16 and 19: Vehicles transporting containers pass over the bridge crossing Red Beach at the mouth of the Yanghe River in Qingdao, Shandong Province, China, on October 21, 2026.
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Page 20 and 22: HOUSTON, TX - DECEMBER 16: “Liminal Scope” by Hovver during Day for Night festival on December 16, 2017 in Houston, Texas.
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