

Session 3: US exposure risk

2025 Frontier Advisors Annual Conference

Chair



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June 2025

2025 Growth forecasts – A Precarious World

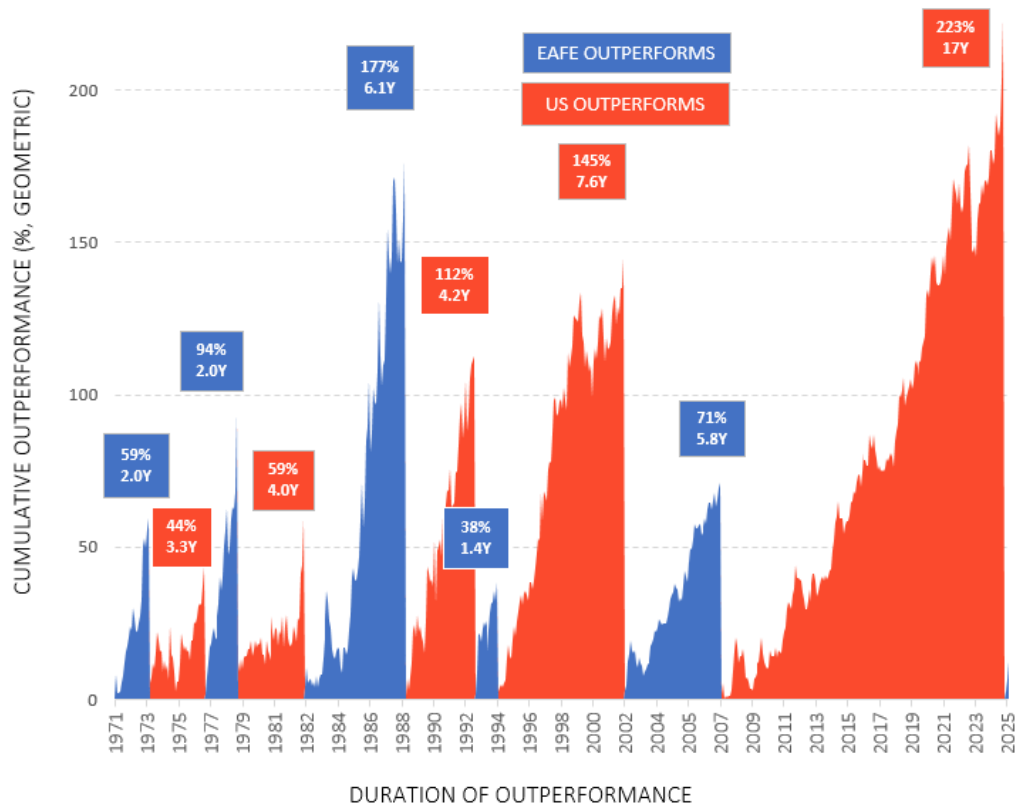
We still see downside risks to global growth but see balanced outlook appearing for some markets as trade risks de-escalate

2025 Growth	BBG Consensus*	Fidelity Upside Case	Fidelity Downside Case	Risk Assessment vs Consensus
Global	3.0	3.8	2.2	Downside
Developed Markets	1.1	1.9	-0.1	Downside
US	1.4	2.6	-0.3	Downside
Eurozone	0.8	1.3	-0.2	Downside
UK	0.9	1.6	0.5	Balanced
Japan	1.0	1.2	0.5	Downside
Emerging Markets	4.3	5.1	3.7	Downside
China	4.2	5.0	3.5	Balanced
India	6.3	7.2	6.0	Balanced
Brazil	1.9	2.8	1.5	Downside
Mexico	0.0	1.5	-0.9	Downside
Turkey	2.9	3.5	0.3	Downside
Indonesia	4.8	5.1	4.6	Downside

Source: Fidelity International, Bloomberg, May 2025. Note: these scenarios and risk assessment are not intended to be exact growth forecasts, but rather illustrations of potential outcomes based on particular assumptions about a number of variables, including supply side risks, monetary and fiscal policies and associated multipliers, corporate and consumer behaviour. Given significant uncertainties related to how the cycle might evolve, these scenarios are subject to change. DM, EM and global aggregates are calculated including only countries that appear in the table, giving rise to potential differences vs aggregate consensus numbers quoted on Bloomberg, which include a wider universe. For India we use Fiscal year 2026 numbers. We will be revising growth numbers and risk assessment continuously, as signals evolve, and more information becomes available *BBG consensus as of 15th May 2025.

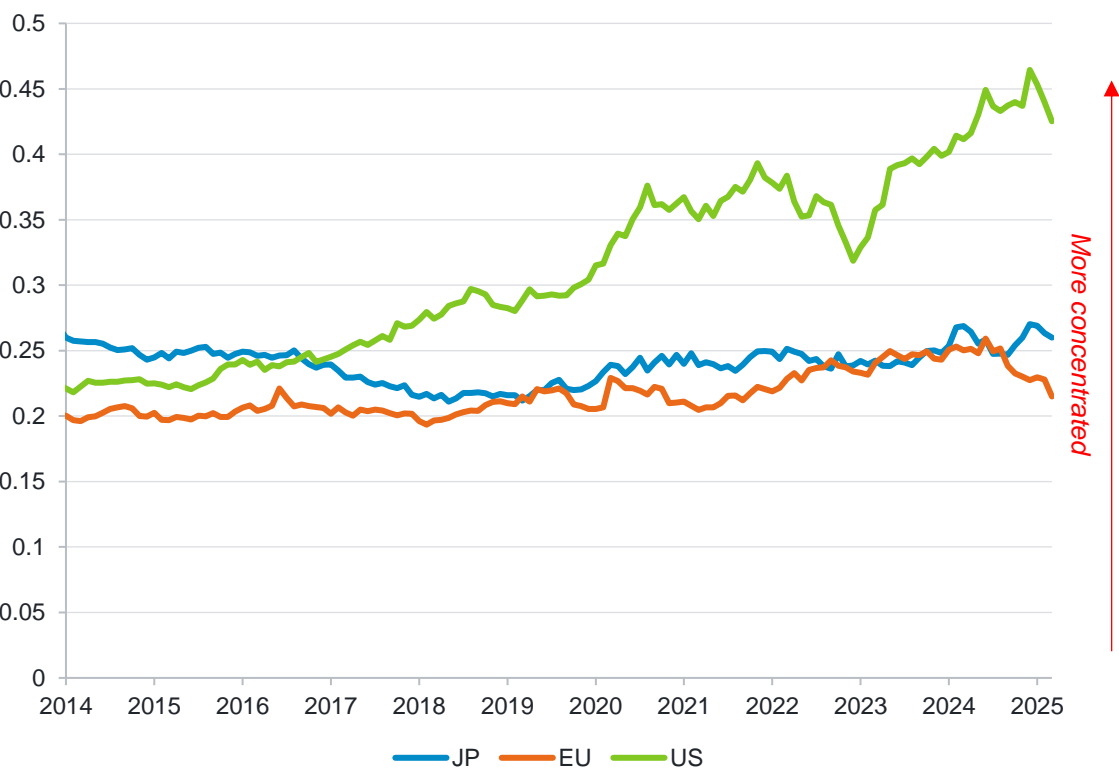
US has led the equity market higher for more than a decade with material increase in concentration, posing thematic and idiosyncratic risks

US VS. EAFE Regime Shifts



Source: The MSCI EAFE Index is designed to represent the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada. Data as at 31 March 2025

Ratio of market cap of top 10 stocks to top 200 stocks

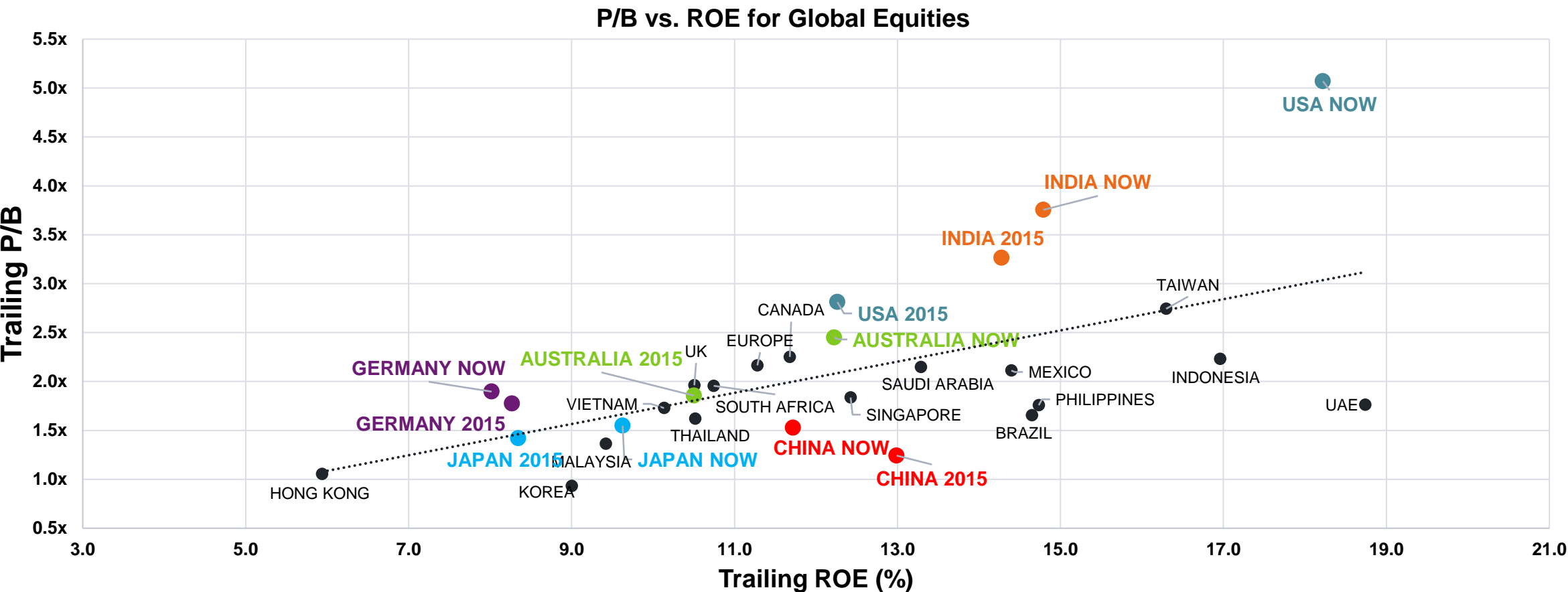


Note: Indices used: Japan: TPX Index, Europe: SXXP Index, UK: NMX Index, US: RIY Index
Source: Fidelity International, 2025. For illustrative purposes only. Past performance is not a reliable indicator of future results

Massive variation in regional outcomes has been fundamentally based

Corporate ROE and consequent valuation impact dominant over GDP variance

Multiple versus returns

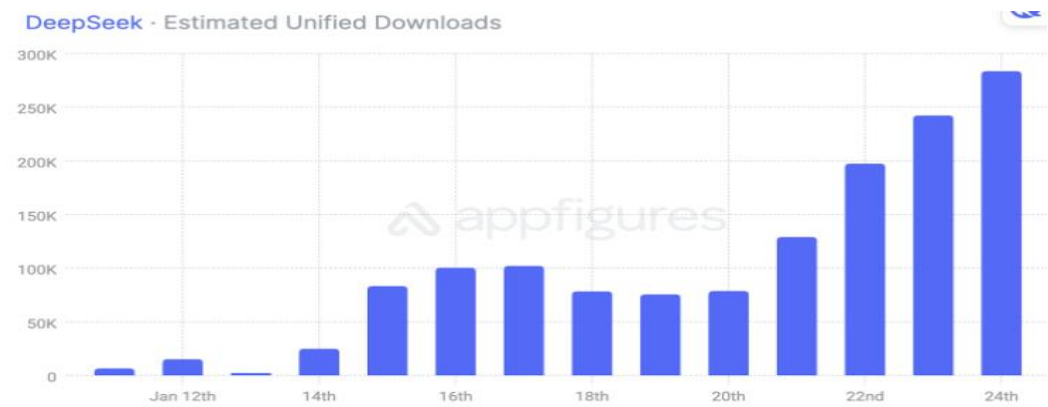


Source : Bloomberg Data as of May 28, 2025. Numbers are based on MSCI Indices for each economy. The data includes trailing P/B and ROE.

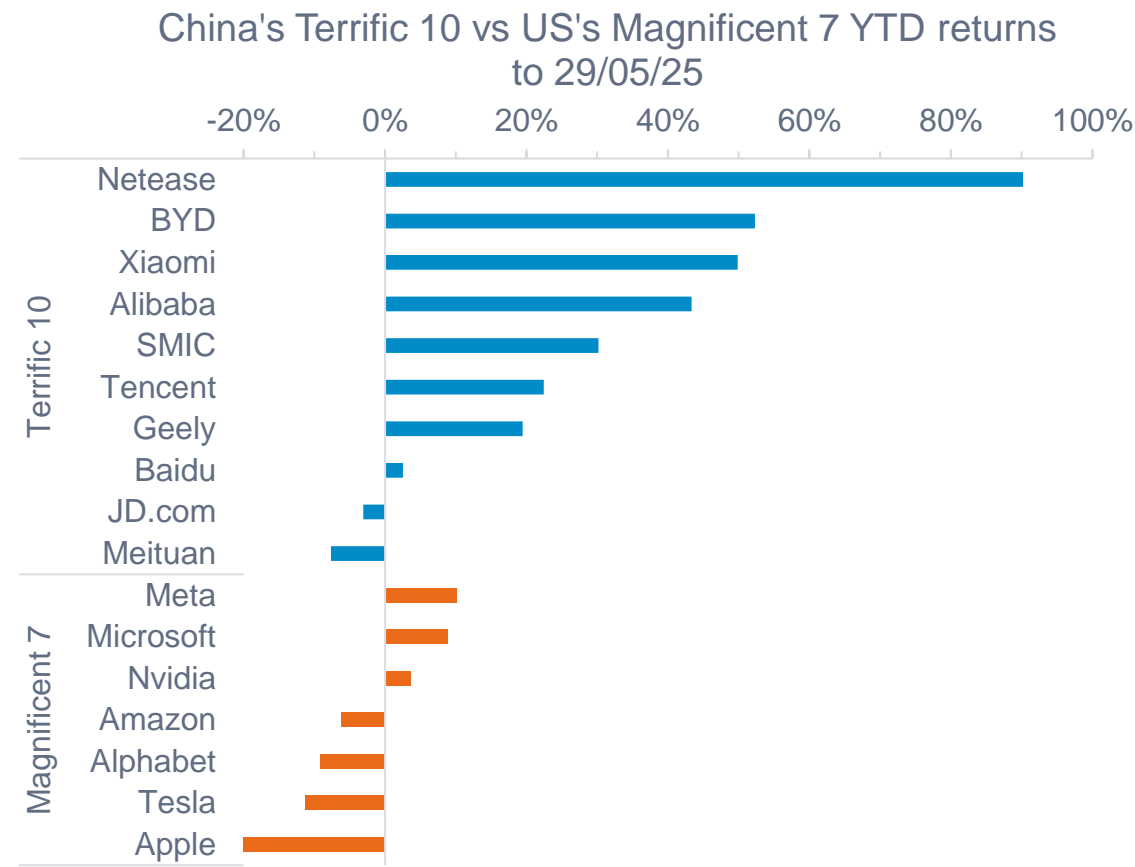
Who will claim ROE leadership for the next decade?

Asian innovation breakthroughs at a time of extended valuation disparity across regions

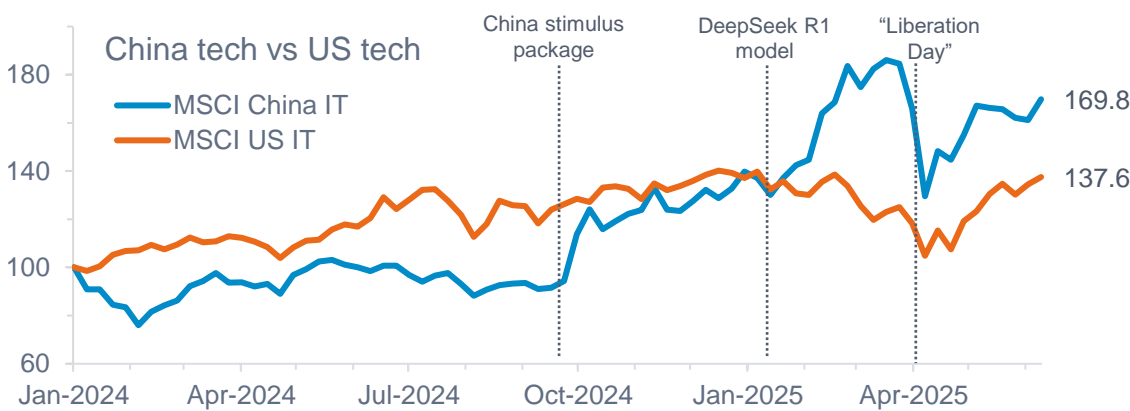
DeepSeek gets its first 1m users in less than a month



Chinese tech companies post stellar gains



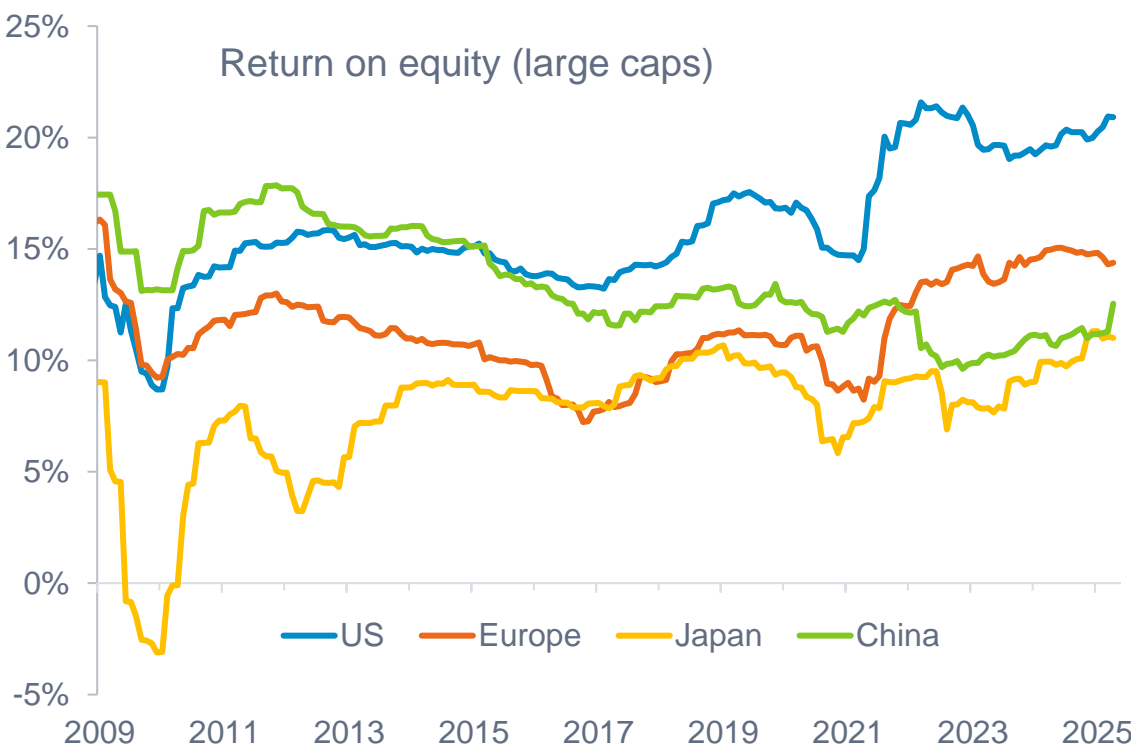
China tech returns catch up and surpass US since start 2024



Source: Bloomberg, LSEG Datastream, Fidelity International, Appfigures, June 2025.

Europe and Japan remain broader markets – opportunities for gains in return far from exhausted

Business quality in Europe has also been improving



Source: LSEG Datastream, Fidelity International, May 2025.

Monthly management sentiment – by sector

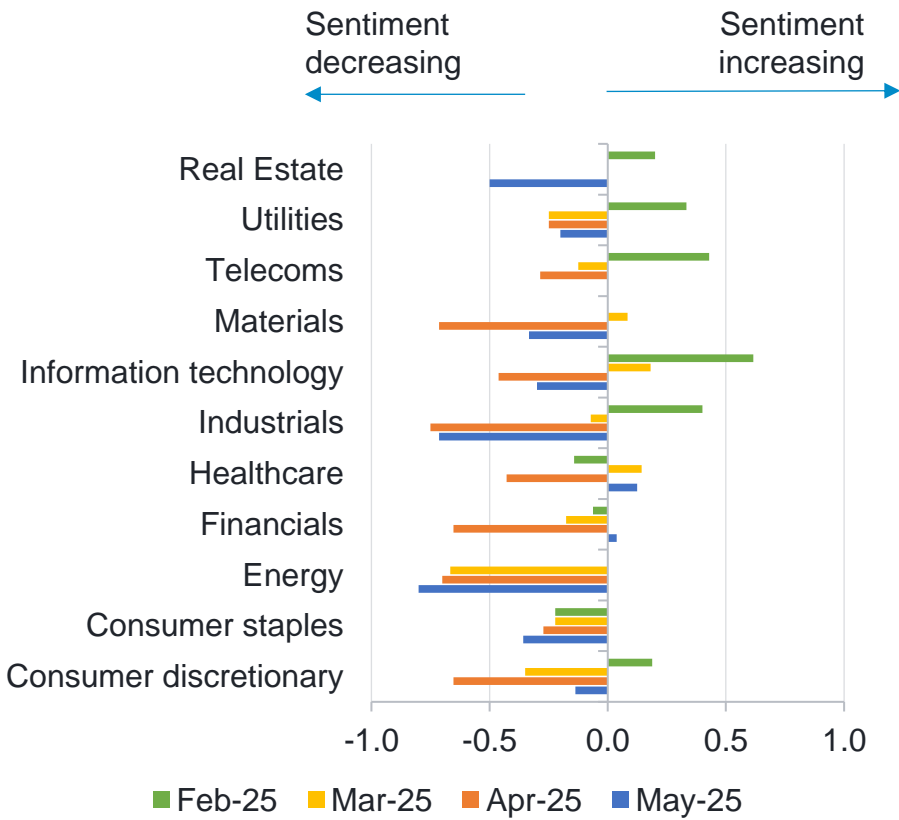
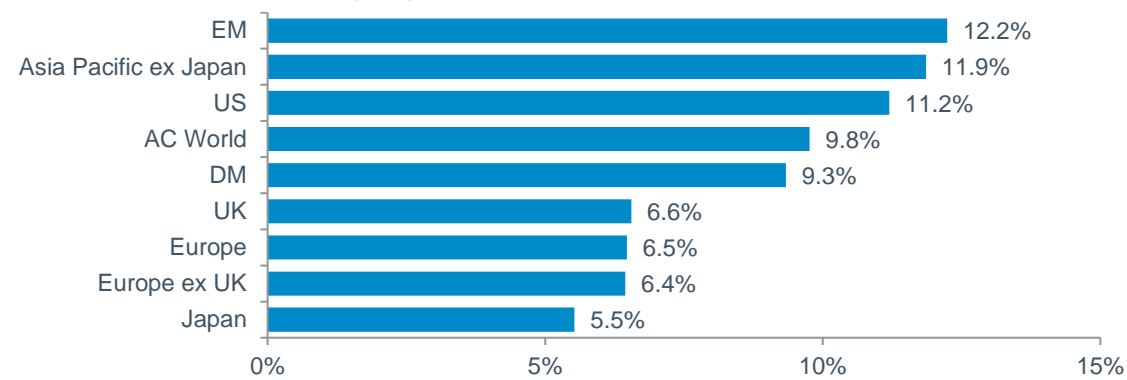


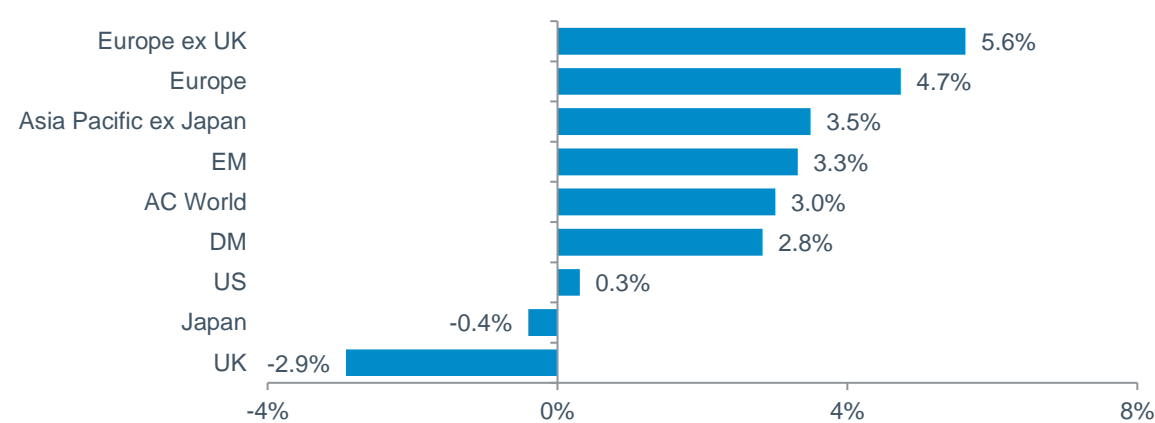
Chart shows proportion of responses reporting management sentiment is positive minus those reporting management sentiment is negative; strong negative and strong positive receive a higher weighting. Question: "Based on your recent research and interactions with companies, to what extent, if at all, has your perception of management sentiment over the next 6 months changed?"

With Heightened risks in 2025 we prioritize Diversification, Resilience and Valuation Discipline

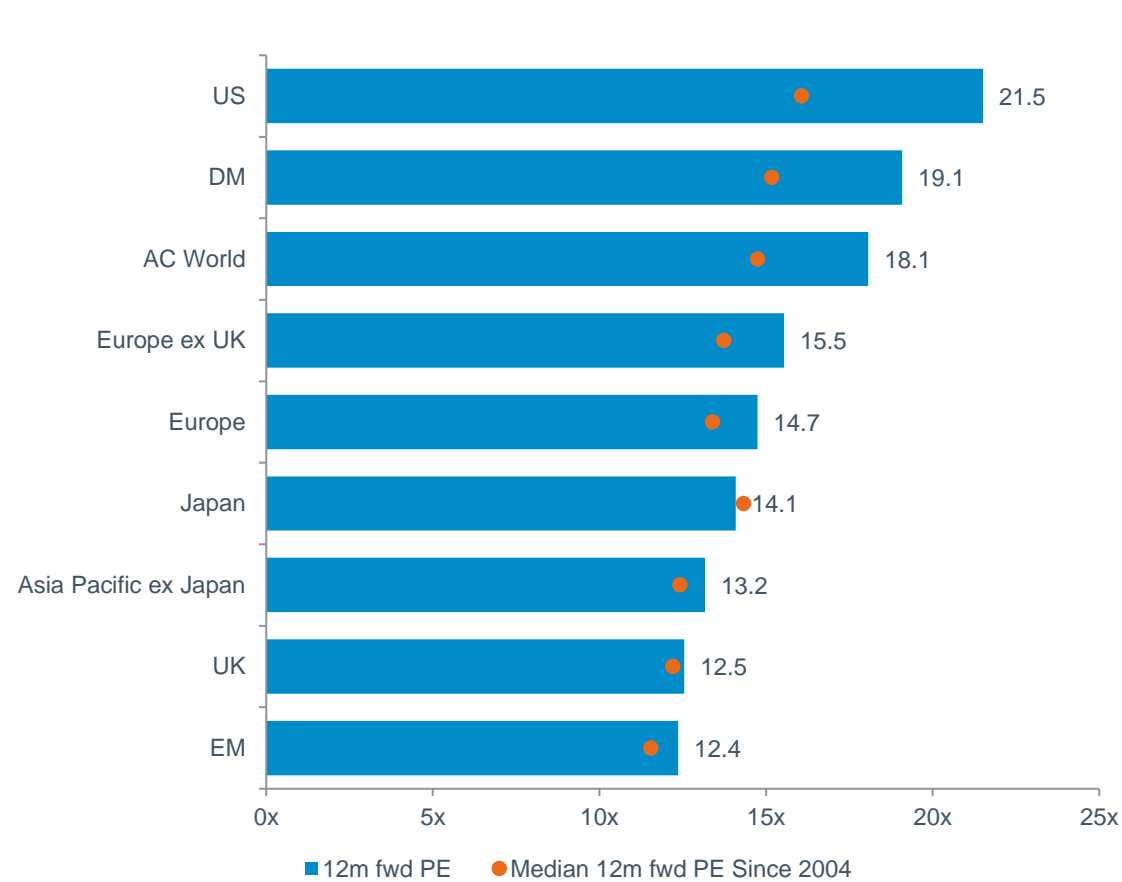
12m forward earnings growth estimates



12m forward earnings revision (last 3 months)



12m forward P/E vis-à-vis historical median

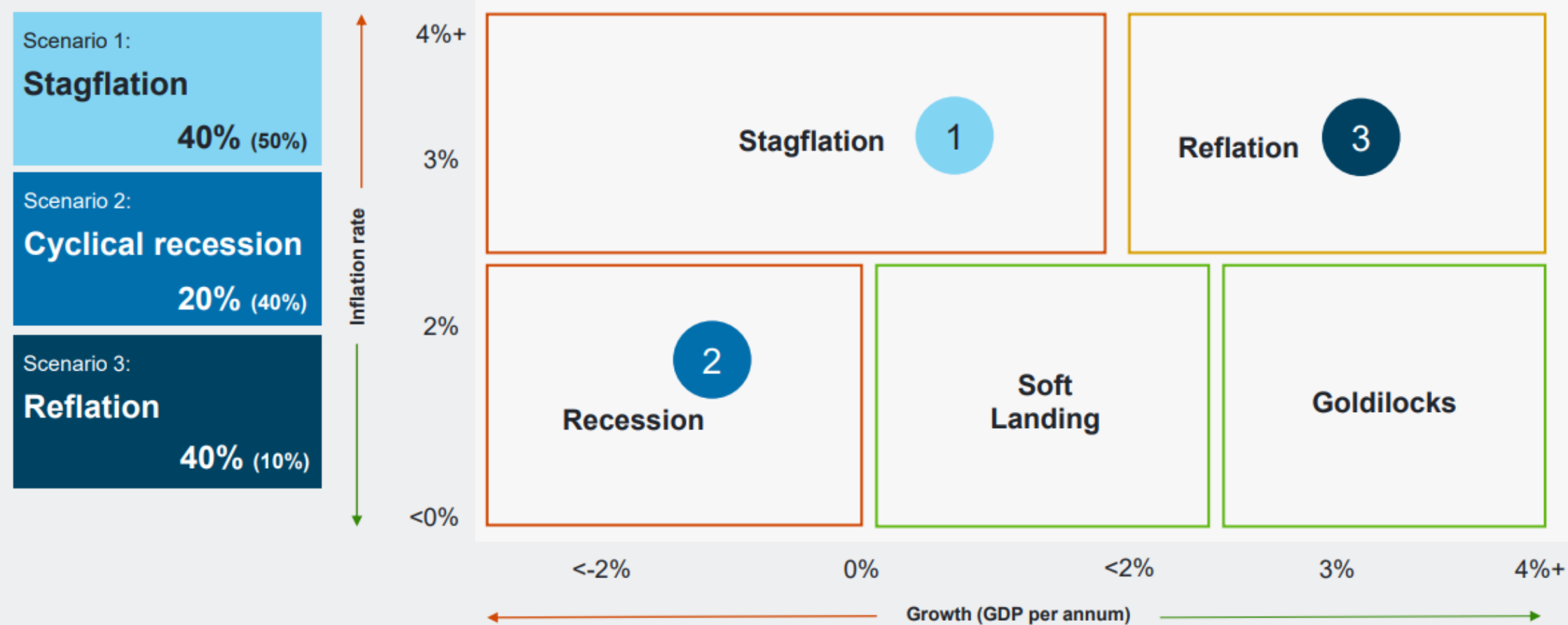


Source: Fidelity International, IBES, LSEG Datastream, May 2025. The regions/countries refer to broader MSCI indices of those regions/countries.

Appendix

Scenarios for the US in 2025

Our combined probability of stagflation and recession has moved down, but remains high at 60%



Note: Brackets reflect previous probabilities. Inflation rate measured by US Core Personal Consumption Expenditures Price Index.

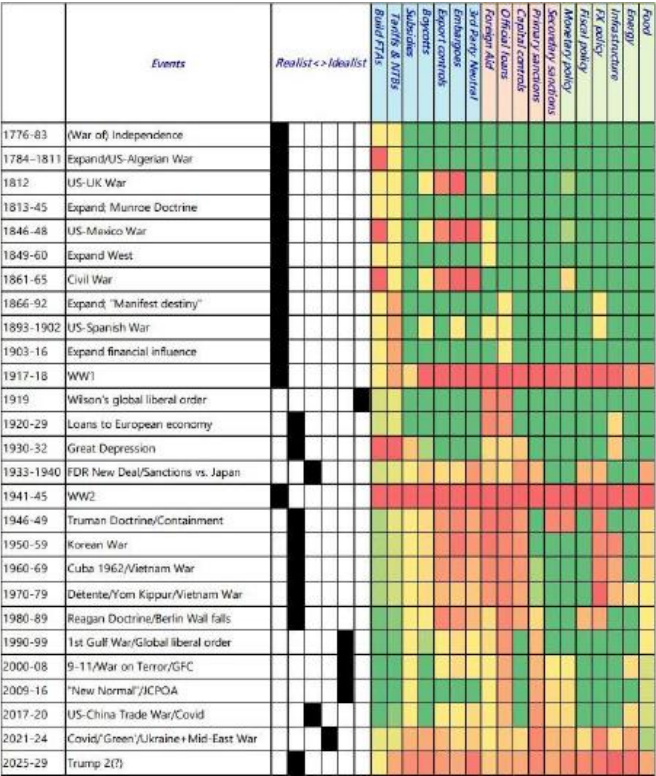
Source: Fidelity International, May 2025

The geoeconomics of the US' new world view

The US' move to an idealist world view was a relatively new phenomenon

US economic statecraft heatmap

Updated for early Trump admin toolkit usage



Source: Rabobank, February 2025

Understanding the world through the US' new mercantilist lens

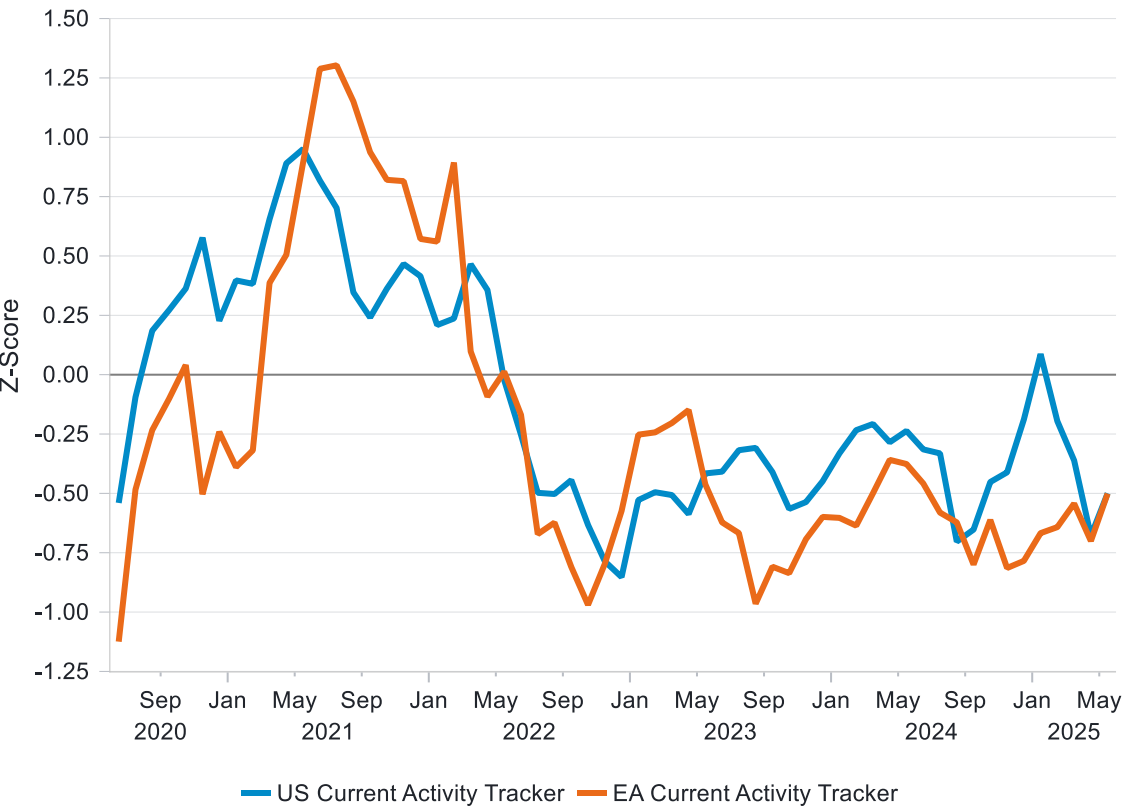
	US trade balance (\$bn)	Military spending (% GDP vs US)	Total trade with CH (% GDP)
France	-16.3	-1.4	2.2%
Germany	-128	-2	5.3%
Japan	-68	-2.3	7.1%
Taiwan	-73.9	-1.33	24.6%
India	-59.5	-1.1	2.9%
Canada	-63.3	-2.21	3.7%
Italy	-34.6	-1.9	2.9%
Saudi Arabia	0.44	3.6	9.1%
UK	11.8	-1.2	3.4%
Australia	17.9	-1.6	10.8%
South Korea	-66	-0.7	15.3%
Poland	-0.1	0.3	0.5%

Source: Fidelity International, Observatory of Economic Complexity, SIPRI, IMF, World Bank, February 2025

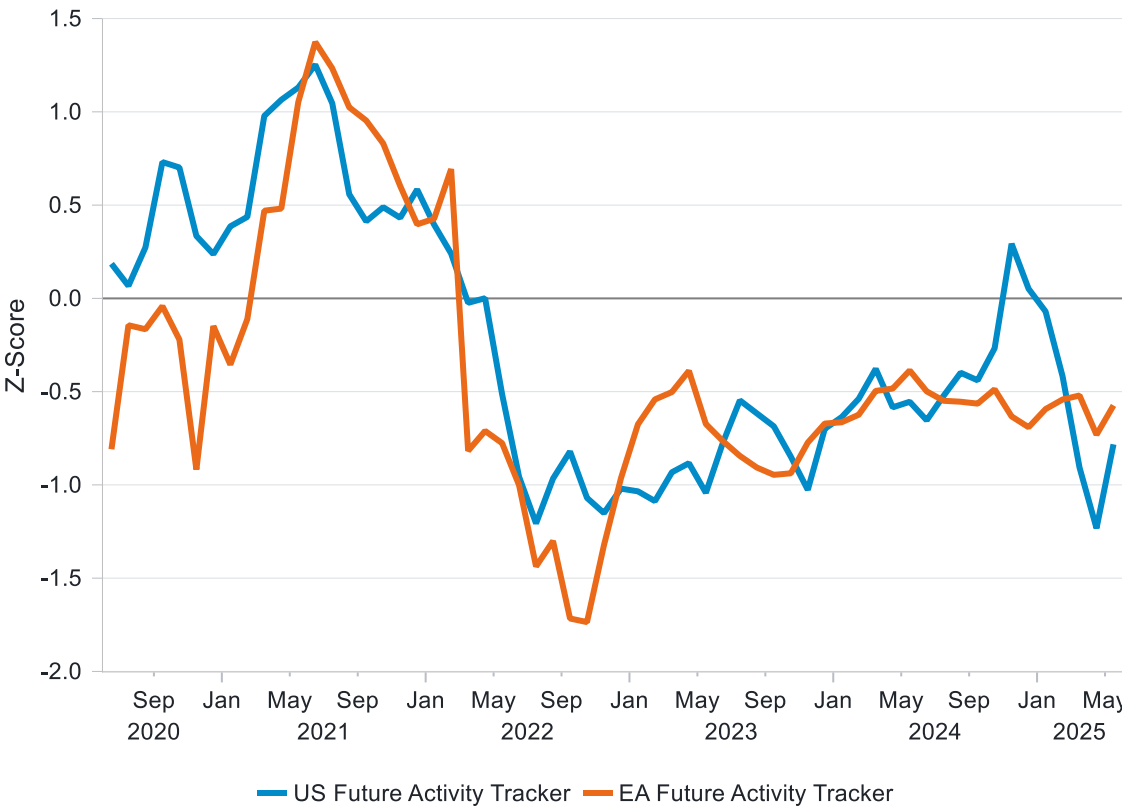
Our activity trackers recover after trade de-escalation between US and China

However, sentiments remain negative particularly the forward looking sentiments and we are monitoring how these evolve in the fast moving policy space

Current activity trackers: US and Euro area



Future activity trackers: US and Euro area



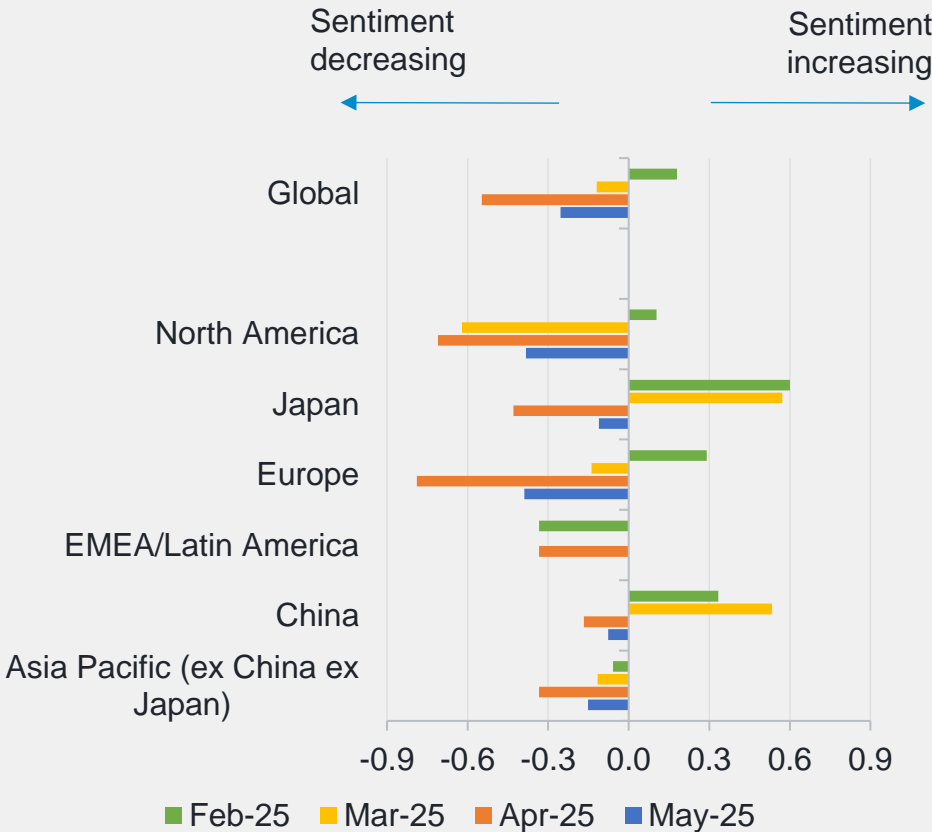
Source: Fidelity International, FIL Global Macro Team calculations, Macrobond, June 2025.

Source: Fidelity International, FIL Global Macro Team calculations, Macrobond, June 2025.

Management sentiment

Corporate sentiment

Monthly management sentiment – by region



Monthly management sentiment – by sector

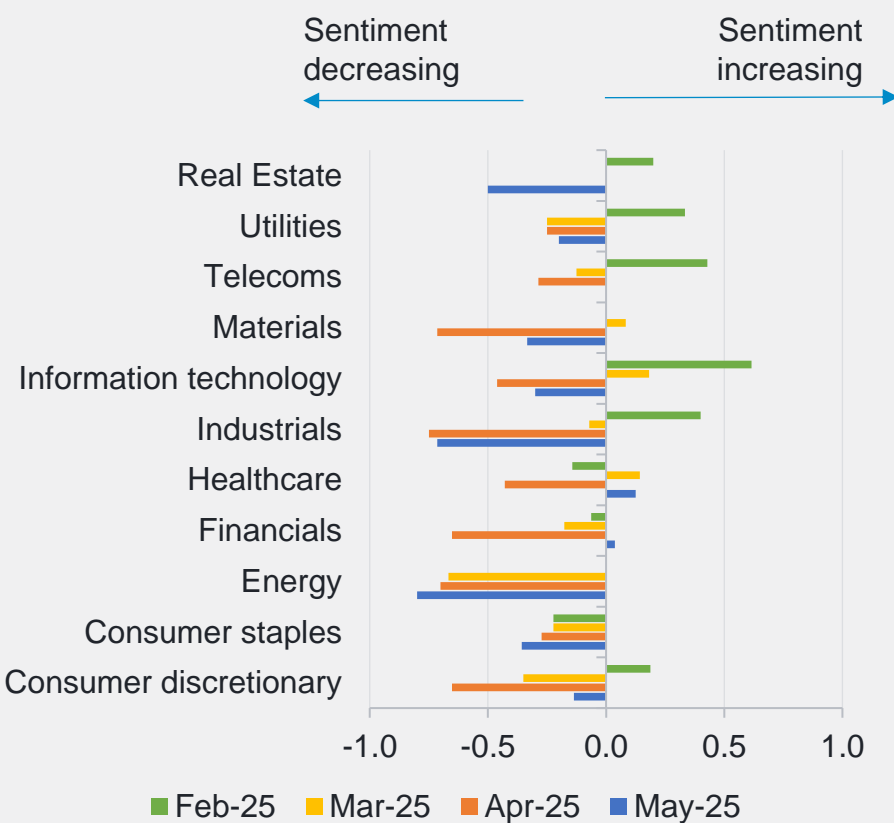
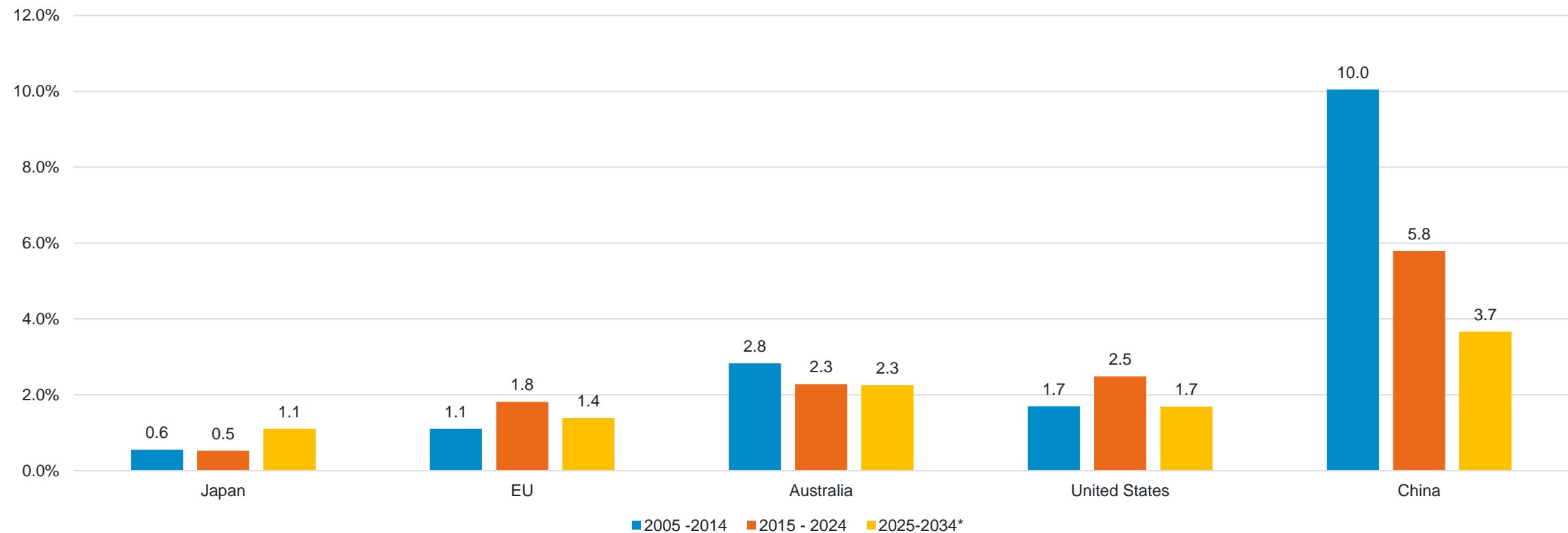


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Global GDP growth across countries

Average Real GDP Growth YoY (%)

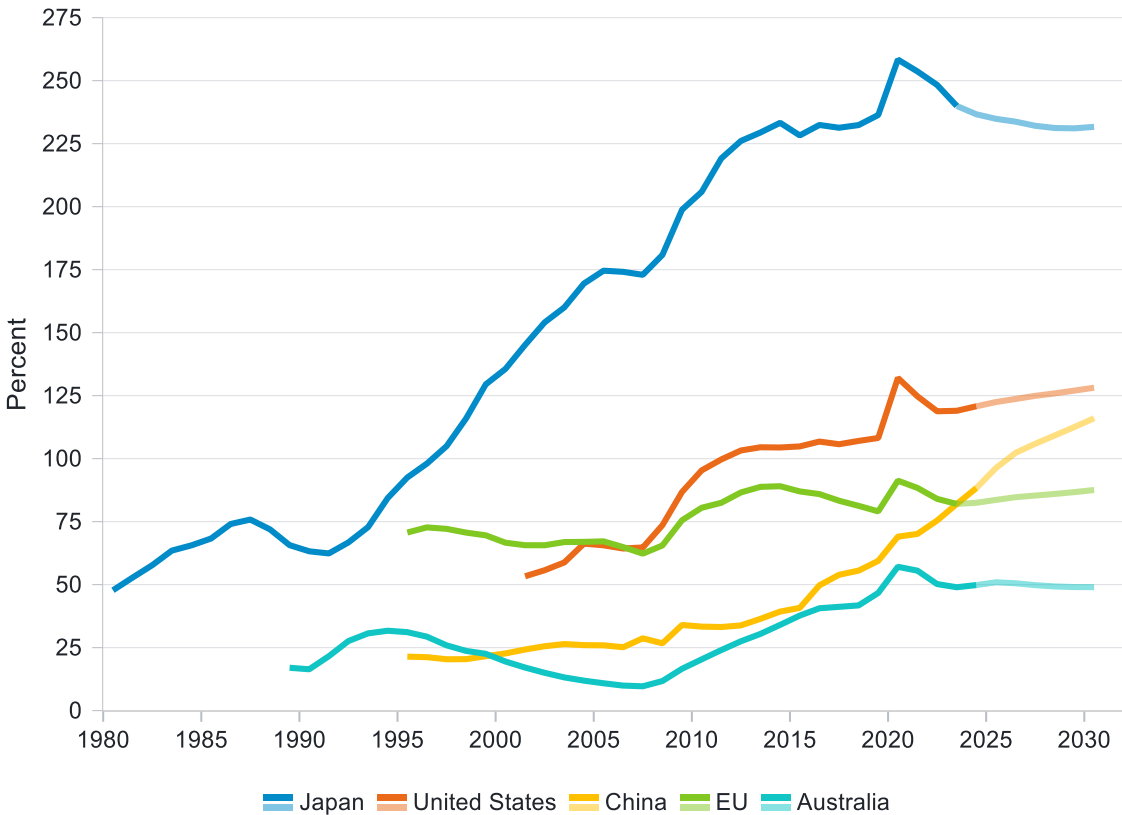


Note: 2025-2034 are based on our CMA 10-year forecasts
Source: Fidelity International, IMF World Economic Outlook, Global Macro and SAA calculations, June 2025.

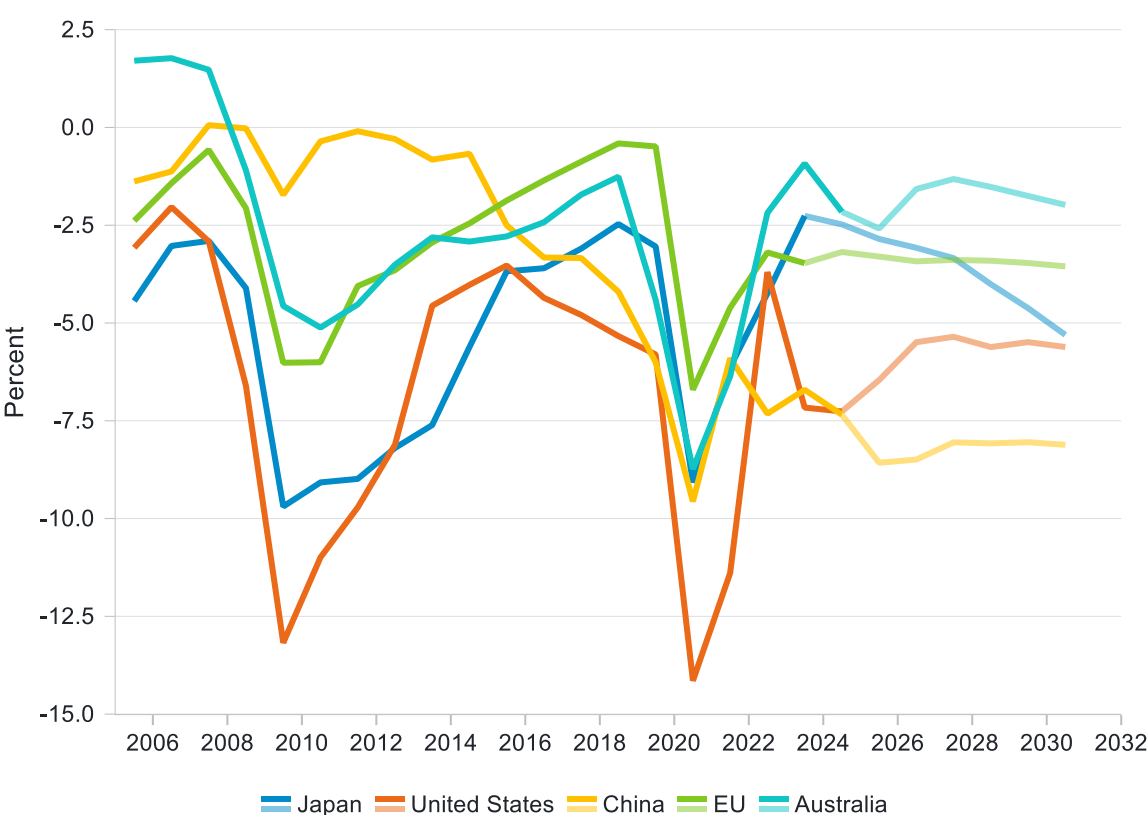
Government debt levels across countries are elevated...

...and countries like the US and China are expected to run large fiscal deficits

General Government Debt to GDP ratio



Fiscal balance as % of GDP



Source: Fidelity International, Macrobond, IMF, June 2025.

Source: Fidelity International, Macrobond, IMF, June 2025.

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Within the slide deck the scenarios and risk assessments are not intended to be exact growth forecasts, but rather illustrations of potential outcomes based on particular assumptions about a number of variables, including supply side risks, monetary and fiscal policies and associated multipliers, corporate and consumer behaviour. Given significant uncertainties related to how the economic cycle might evolve, these scenarios are subject to change. We will be revising growth numbers and risk assessment continuously, as signals evolve, and more information becomes available.

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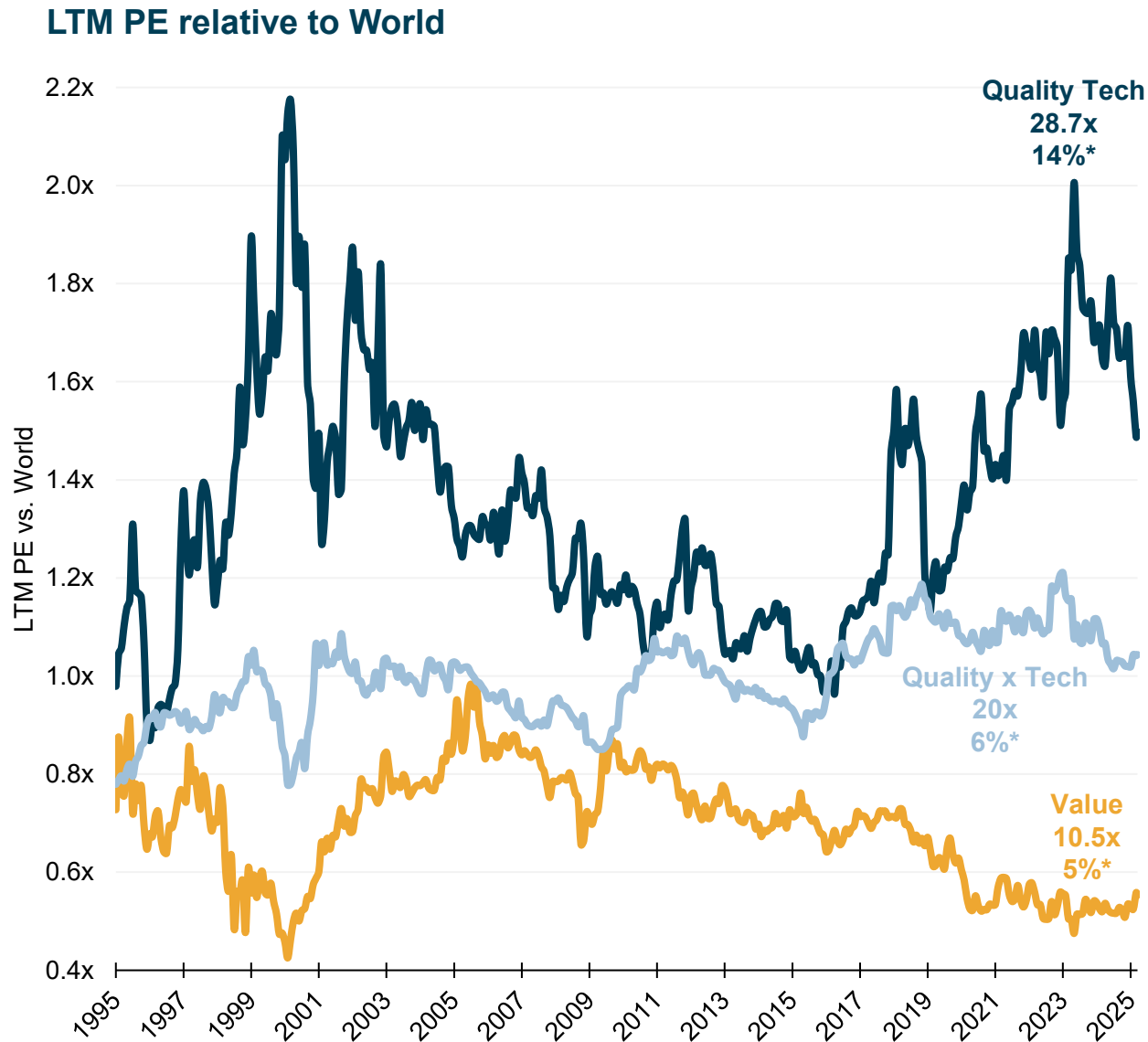


Frontier Annual Conference 2025

Market Outlook

June 2025

Living through a Quality bubble



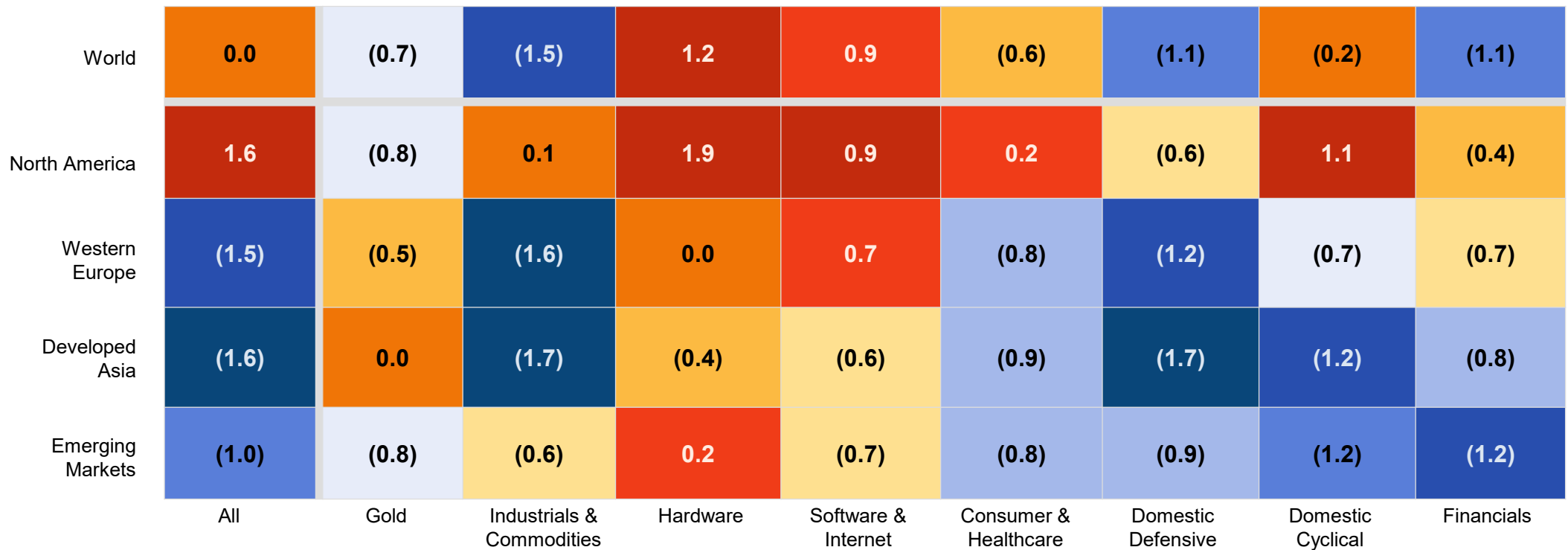
Source: FactSet, Antipodes
*10Y CAGR (7Y historical + 3Y forward eps growth)

- **Quality** stocks are trading at significant premium to history, synonymous with US megacap dominance >> **stretched**
- Outside of tech, the Quality re-rating has not been supported by growth
- **Value** stocks at extreme discount to Quality and history >> **opportunity!**

Position portfolios for dispersion to narrow as company fundamentals prevail...

Global Valuation Heatmap, the US is indeed exceptional!

Composite valuation¹ v world (20-year z-score)



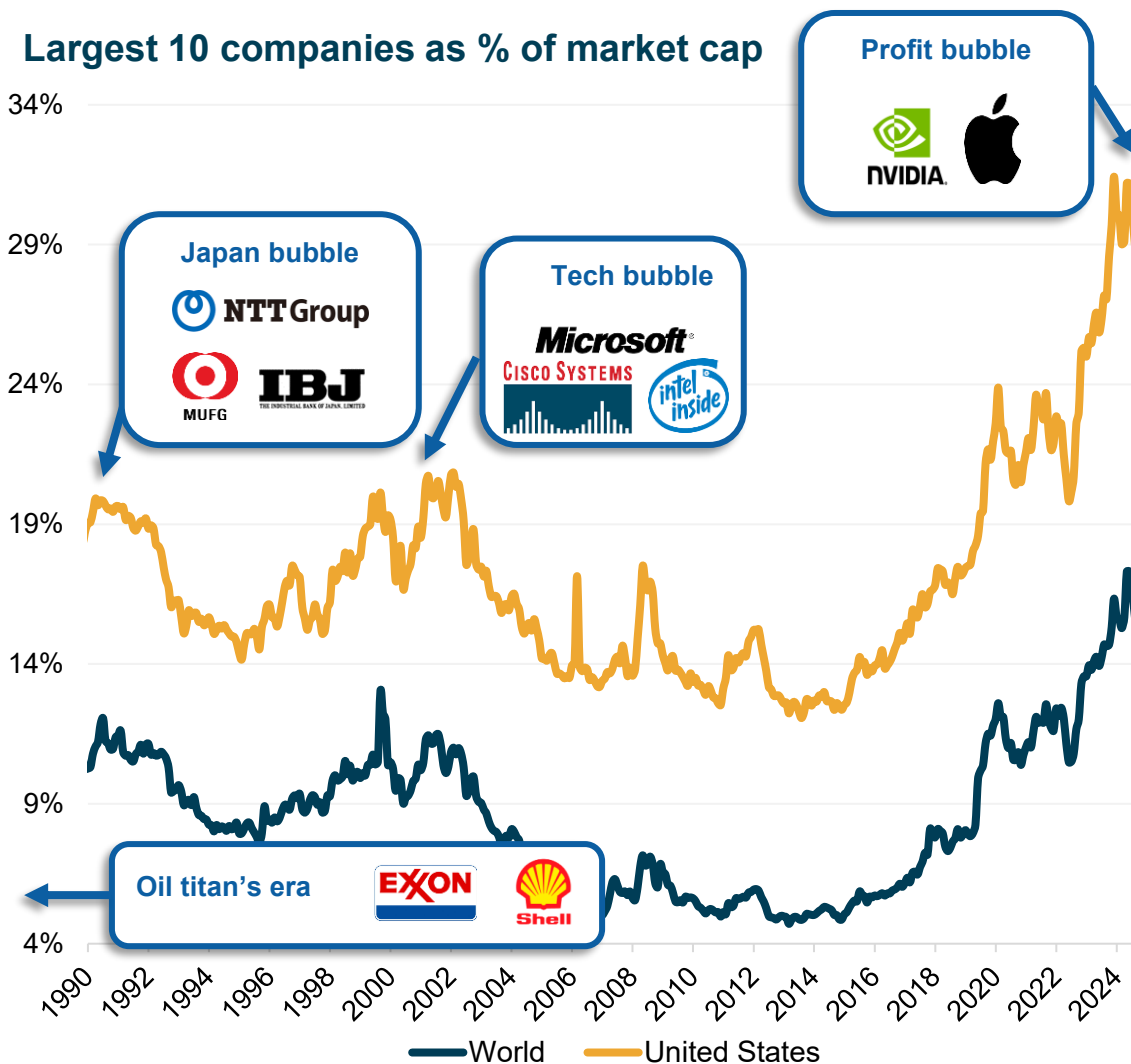
Expensive  Cheap

As at Mar-25

¹ Composite of forward PE, EV/Sales, EV/Operating Capital Employed (including goodwill) and cyclically adjusted PE and EV/EBIT for industrials, with EV based measures replaced with PB and cyclically adjusted P/Pre-provision profits for financials

Source: Factset, Antipodes

Concentration risks: Extremes break with new leadership



Tailwinds building beyond current market darlings

New winners will emerge



Sector/style shifts

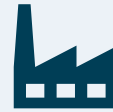
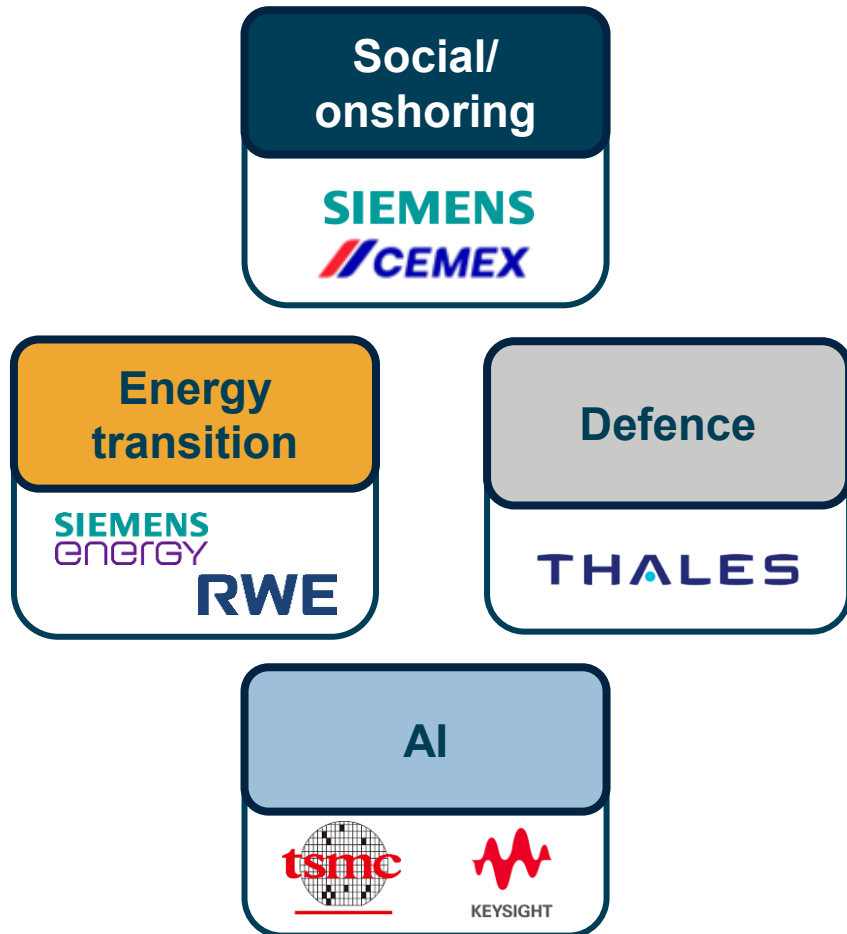
- Tangible Infrastructure led investment cycle
- Shifting from AI enablers to adopters



Regional shifts

- Change in fiscal impulse
- US exceptionalism can fade

Sector/style broadening: Tangible infrastructure led investment cycle



Social/onshoring: continued investment in domestic infrastructure along with the West's desire to onshore



Energy transition: to meet global goals toward net zero emissions and sustainability



Defence: spending driven by rising geopolitical tensions and rapid technology development, especially in Europe



AI: investment in local infrastructure and new devices is required to bring AI to the application layer

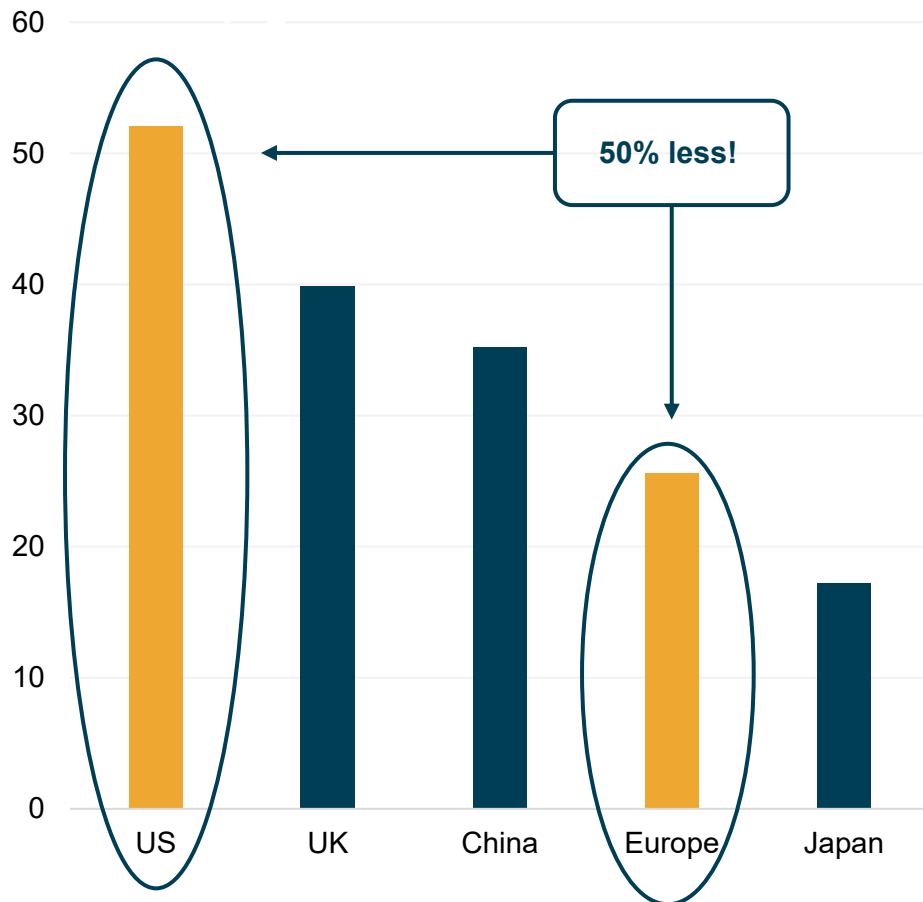
A broad-based investment cycle is already underway

US mega-cap dominance will evolve as new winners emerge

Regional broadening: US fiscal exceptionalism has its limits

US exceptionalism driven by cyclical/fiscal and structural forces

Cumulative fiscal deficit to GDP (2016 – 2023)



Source: Macrobond



Europe, austerity to arms

€500b infrastructure boost, defence spending to rise to 3% of GDP



China, stabilisation + structural pivot

Local govt. funding vehicles, property support and consumption support + infrastructure: onshoring/energy/AI



Japan, fiscal stance loosening

Record defence budgets and energy subsidies



Indonesia, India and Brazil

Boosting infrastructure and subsidy programs

Stable housing and modest fiscal easing can pull China out of its funk



Fiscal deficit lifted to 3.8% of GDP from long-standing 3% cap



Special sovereign bond issuance to fund energy transition, semiconductors and national security projects



Fiscal support shifts from property and heavy industry toward consumption e.g. EVs and home appliances

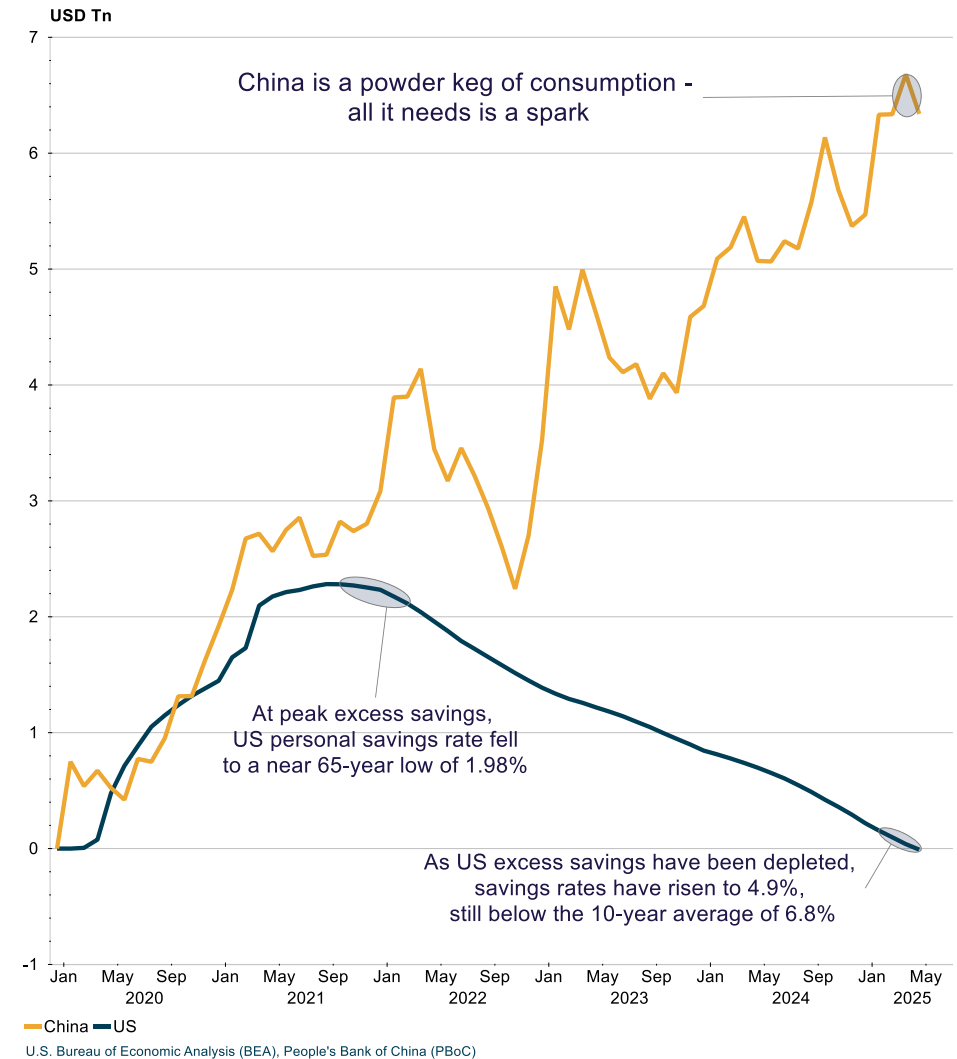


Selective support for unfinished projects to stabilise the property sector



Reactivating Local Government Financing Vehicles to support infrastructure and urban development spending

Cumulative excess savings in the US are now depleted



Excess savings can add fuel to consumption should confidence recover

US soft landing cushion is deflating, range of outcomes is widening

US labour market is finely balanced



Excess savings are depleted so consumption will rely on wage growth, and real income growth has peaked



Labour market has rebalanced after COVID disruptions; fewer job openings will see higher unemployment



Uncertainty over Trump tariffs and policy is weighing on investment and hiring intentions

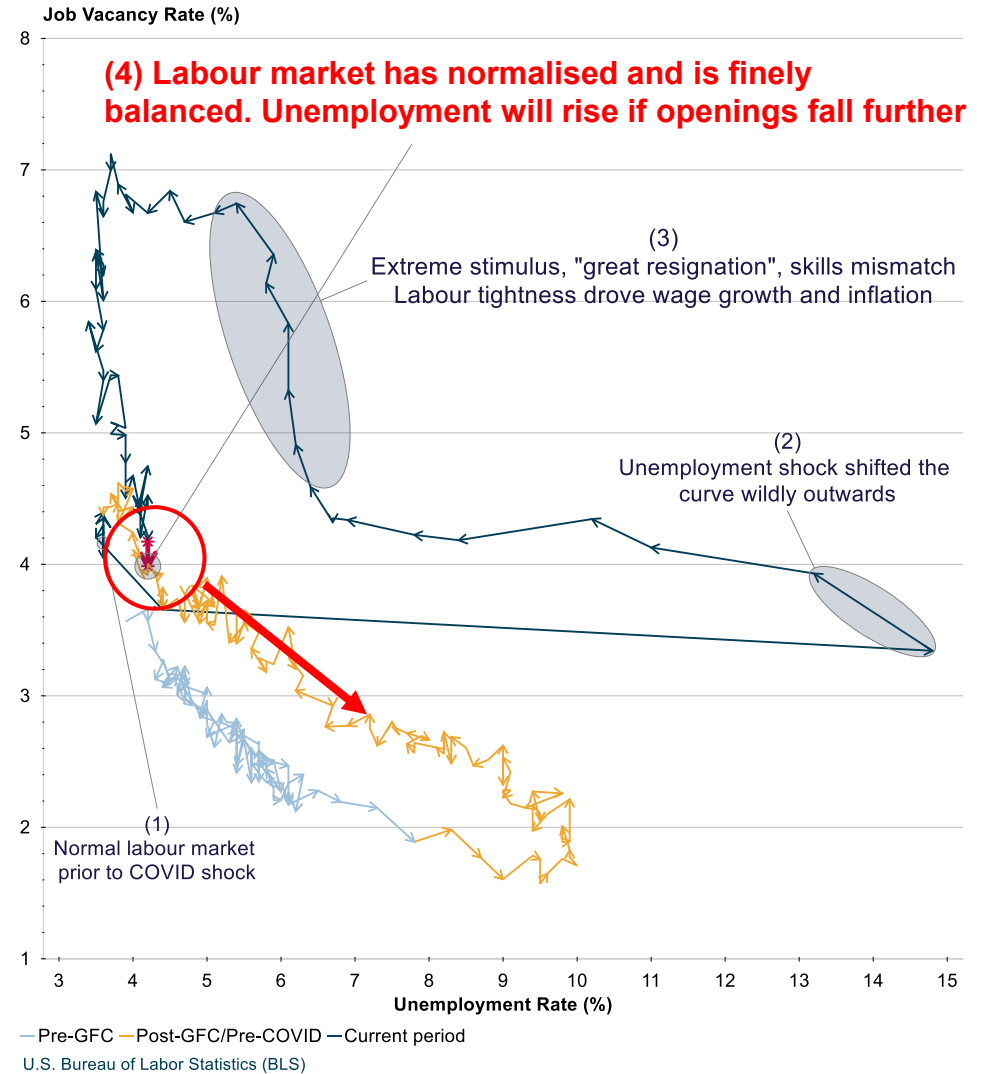


Tariff driven inflation may tie the Fed's hands



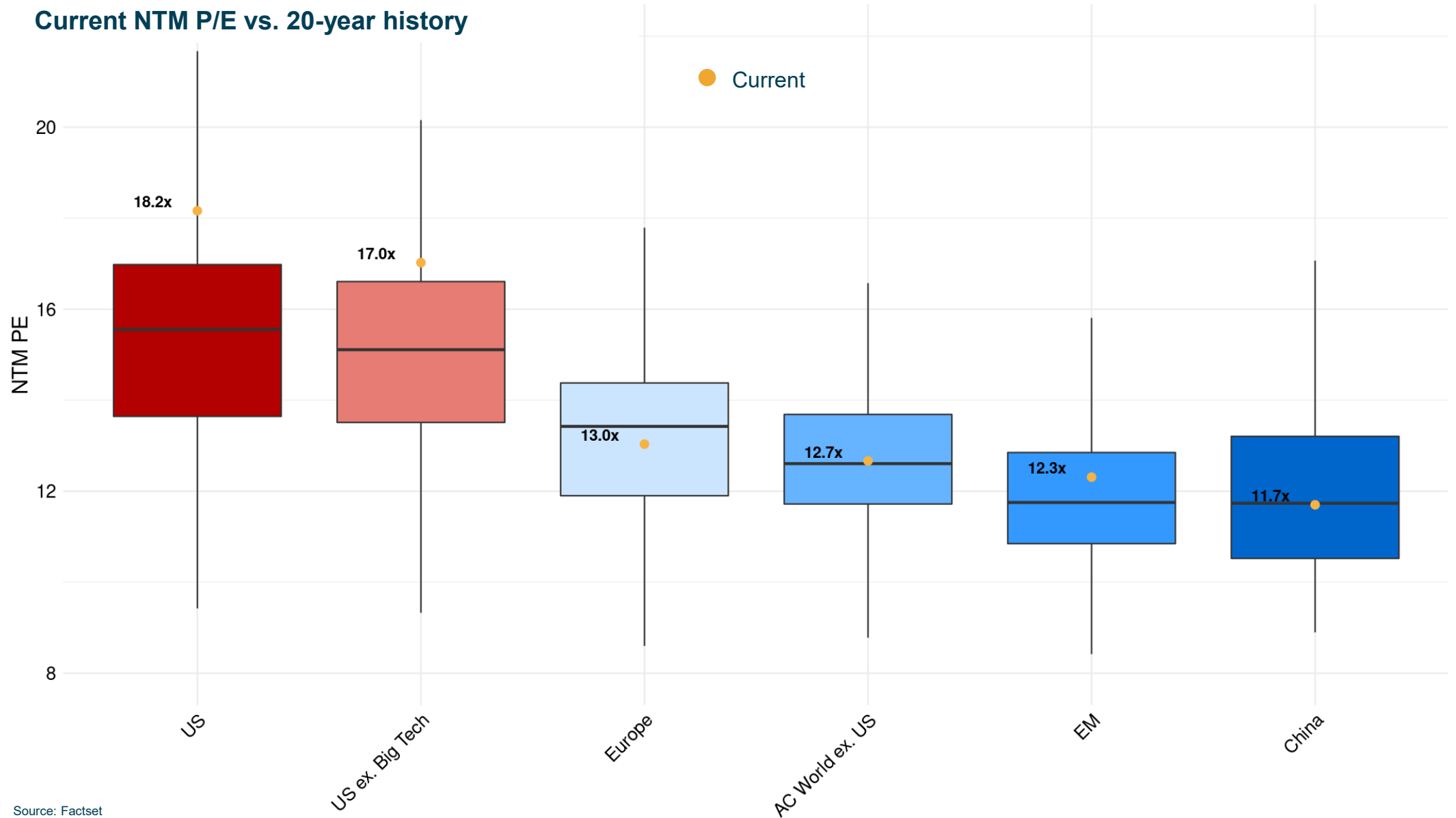
Uncertainty may drive household savings rates higher, just as the economy needs support from consumption

US Beveridge curve



US remains expensive relative to 20 year history, RoW within historical bounds

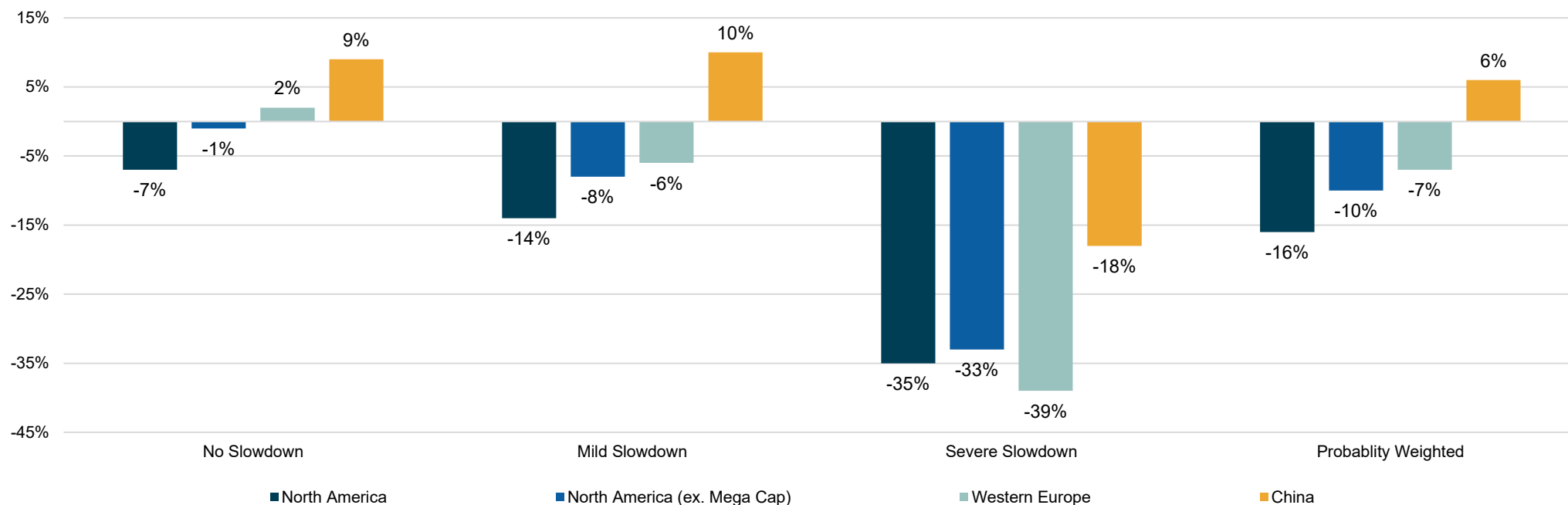
Current NTM P/E vs. 20-year history



Source: Factset

Recession stress test, US equities remain relatively expensive

Required price change to mean revert to NTM PE to 25Y average LTM PE



Note: Probability Weighted scenario assumes 15% probability of severe slowdown in each region, and 85% probability of no or mild slowdown

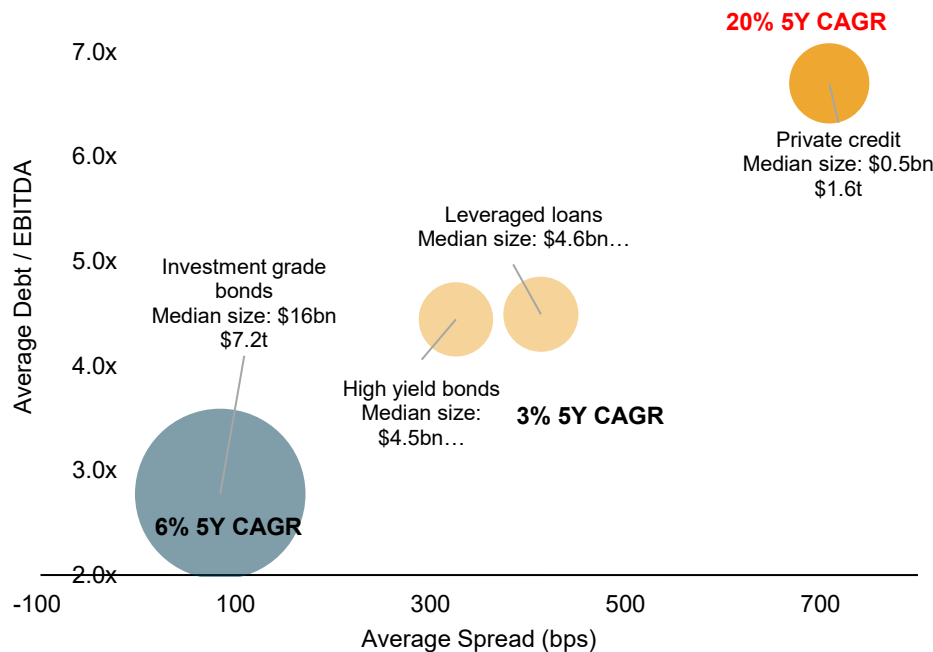
Source: FactSet, Antipodes

- Historical data provides the change to earnings in each scenario, which drives the price change required to revert to long-term historical PE
- **US equities appear expensive across all scenarios**
- **Western Europe is vulnerable in any slowdown as the stock market has greater links to the global business cycle**
- **China stands out as undervalued in a probability-weighted view, offering potential upside**

Higher rates exacerbated by high leverage can be an additional pressure point

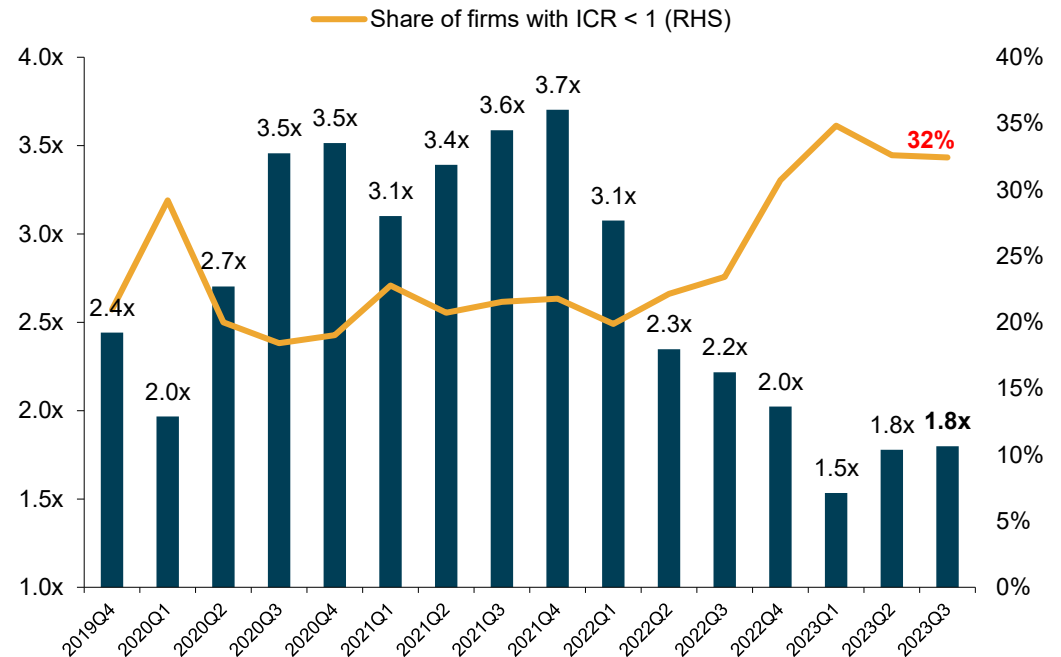
Structural vulnerabilities are building

US corporate lending market – size, leverage & spreads



Source: Deutsche Bank, Bloomberg, LCD/Pitchbook, S&P CapIQ Pro, Prequin, Antipodes

Interest coverage ratios (ICR) of highly leveraged firms

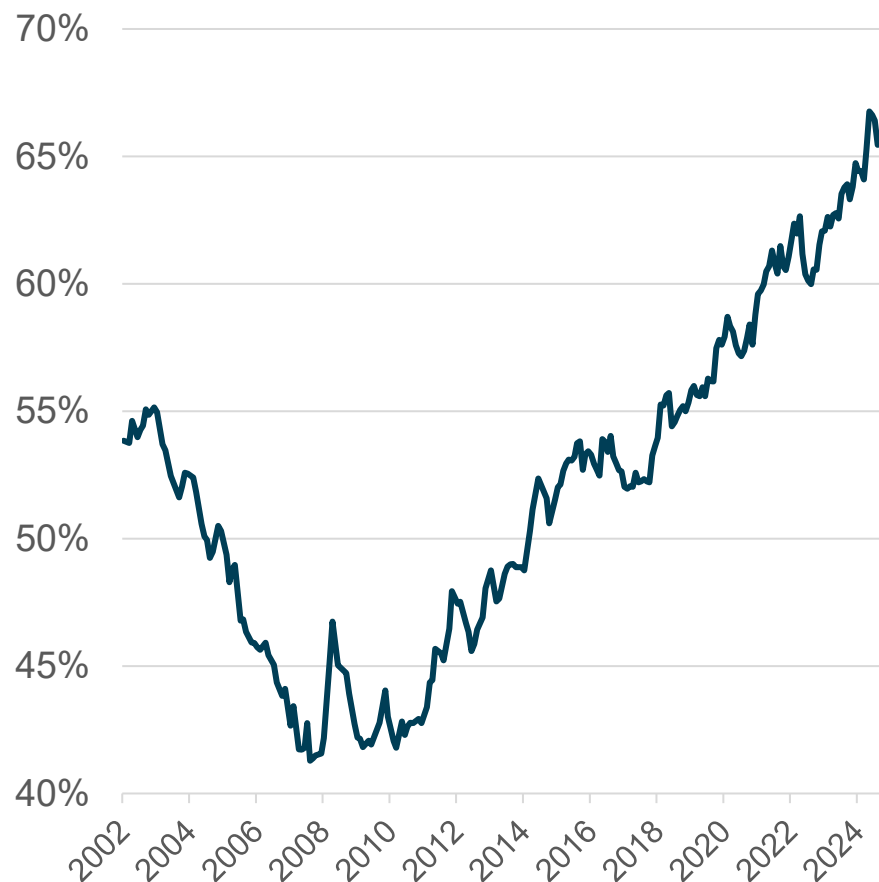


Source: IMF Financial Stability Report April 2024.

- 20%+ of US employment is tied to leveraged corporate structures
- Stress in private credit/equity -> transmission channel to real economy
- Higher rates amplify the risk -> leverage turns from tailwind to trap

US REVENUE share of benchmark, a lot less than DOMICILE share

US as % MSCI ACWI



ACWI Exposure: domicile vs. revenue

Region / Country	Domicile	Revenue	Difference
North America	67.5%	48.4%	(19.1%)
Canada	2.7%	2.9%	0.2%
United States	64.8%	45.6%	(19.2%)
Europe	14.5%	13.0%	-1.50%
United Kingdom	3.1%	3.0%	(0.1%)
France	2.5%	1.8%	(0.7%)
Germany	2.3%	2.6%	0.3%
Italy	0.7%	1.4%	0.7%
Netherlands	0.9%	0.8%	(0.1%)
Switzerland	2.2%	0.7%	(1.5%)
Rest Western Europe	2.8%	2.6%	(0.2%)
Asia	14.2%	22.3%	8.1%
Developed Asia	7.5%	7.1%	(0.4%)
Japan	4.8%	4.2%	(0.6%)
Korea ¹	0.9%	1.4%	0.5%
Taiwan ¹	1.7%	1.6%	(0.1%)
Developing Asia	6.7%	15.2%	8.5%
China/HK	4.0%	9.8%	5.8%
India	1.9%	2.9%	1.0%
Rest of Asia	0.8%	2.5%	1.7%
Oceania	1.6%	3.2%	1.6%
EM ex Asia	2.2%	11.0%	8.8%
LATAM/EEMEA	2.2%	11.0%	8.8%
Rest of World ²	-	2.1%	2.1%
Total	100.0%	100.0%	

Source: FactSet, Antipodes

¹ Antipodes classifies Korea and Taiwan as developed economies, rather than emerging, to better reflect their institutional frameworks, demographics, economic maturity and specialisation.

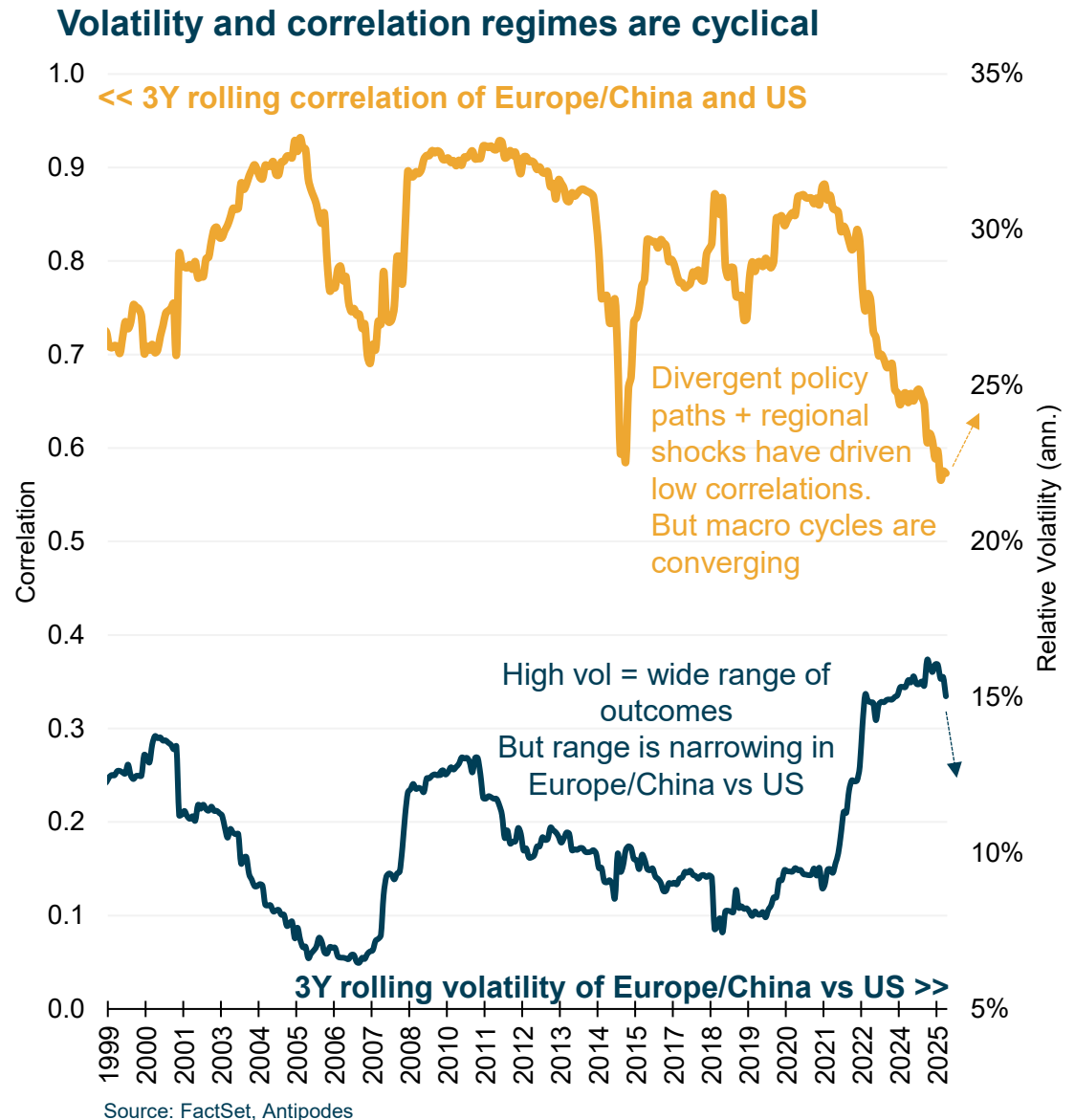
² Exposure to regions/countries not specified above.

Exposures as at Mar 2025. Benchmark is MSCI AC World Index.

LOW risk today may be HIGH risk tomorrow

- **Low tracking error in US-heavy portfolios** may prove cyclical – a function of **low relative volatility** & **low correlation** to other markets
- **Europe/China relative volatility will likely fall:**
 - Europe/China: policy easing
 - US: late-cycle fragility, Trump risk, fiscal cliff
- **Regional correlations will likely reconverge:**
 - Inflation and rate paths converging
 - Cross-border capital flows restarting
- If this happens, **MATHEMATICALLY tracking error from regional tilts will fall!**

Idiosyncratic opportunities in Europe and China offer great returns and the regional risk penalty will likely fall





Return vs risk stress-test

- Quality remains expensive relative to Value
- Value *PLUS* Quality/Defensive is very timely - look in less obvious parts of the market
- Small-caps are cheap relative to large-caps
- US remains broadly expensive and priced for continued exceptionalism - is this realistic?
- Tolerate higher levels of Europe/EM regional tracking error as volatility and correlations can shift



Position for a broadening/change in leadership

- Shift in fiscal stimulus led by Europe and China
- Democratisation of AI that switches focus from enablers such as semiconductors to beneficiaries
- Normalisation of above trend services consumption relative to goods
- Look for protection against the fattening tail risk of recession and private credit crisis

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