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TRANSCRIPT

SPEAKERS:

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HEATHER HEGEDUS: Hello there, everybody. Thank you so much for making the time today to join us for *Market Sense*. I'm Heather Hegedus with Fidelity. So, after weeks of notching record highs, news of a tariff setback with China ended the market's latest winning streak last week. Up until now, investors have largely shrugged off any new negative developments, including the government shutdown, which, by the way, is now entering its third week. We can't forget that that is happening as well.

But, clearly, tariffs are still an issue that investors remain concerned about right now. So today, we're going to try to make sense of it all with Fidelity's Director of Global Macro, of course, Jurrien Timmer. We are also thrilled today to welcome Sonu Kalra to the show. He is a veteran portfolio manager here at Fidelity with a focus on blue chip stocks.

So these are usually large, well-established companies with a proven history of stable growth and reliable performance. And they often pay consistent dividends, which, of course, is a nice perk. So today, Sonu is going to tell us how he's been navigating the uncertainty surrounding tariffs, as well as how AI is transforming every aspect of some of these blue chip companies.

I'm so grateful to both of you for making time out of what I know are packed schedules to come here and have this conversation with us today. And, Sonu, welcome to the show.

SONU KALRA: Thanks for having me on, Heather. Glad to be here.

JURRIEN TIMMER: Good to see you both. And, Sonu, welcome.

SONU: Thanks, Jurrien.

HEATHER: We've got a lot to talk about today. It's Tuesday, October 14. Let's start with what happened on Friday. So maybe just when investors might have felt like April's 21% drawdown when that tariff announcement was made was finally in the rear view mirror and the market was finally enjoying a long streak of all time highs, Friday, we got that news that China could get hit with additional tariffs. And that had a big impact on the markets on Friday.

Jurrien, I'd love to start with you. What parts of the market saw the most impact because of this? And where do things stand now? Because I know even today, there was some concern when the markets opened.

JURRIEN: Yeah. So the markets have been on quite a run—a big streak of uninterrupted new highs. And the recovery since that 21% tariff tantrum, as I call it, back in April has been, really, a very, very impressive, only bested by a similar move back in 1998. And we'll talk about that later.

And the more momentum stocks were really driving this, so what we call non-profitable tech stocks. I recently issued IPOs—newer shiny stocks that may or may not be seen as an AI play. And so the market was riding pretty high on a wave of enthusiasm, momentum. Investors were more willing to take risk.

And, of course, throwing cold water on this last Friday was the news that the tension between China and the US on tariffs or on trade is, once again, flaring up, or at least it hasn't gone away. And it's just a good reminder that there are so many crosscurrents in this market, right?

We have monetary policy in the Fed. And Fed Chair Jay Powell was on the tape today talking about the jobs market and maybe stopping the run-off in the Fed's balance sheet. And that's actually boosting the markets a little bit today. Of course, we have the one big beautiful bill and what that does to capital spending.

And then we have, of course, the whole AI boom. And questions abound about whether that's going to turn into a bubble or not. But the trade thing that I think the markets had largely put behind them, it hasn't been fully resolved. And so this back and forth is a reminder that you never know which of these crosscurrents are going to hit. And after a long streak of wins, maybe investors got a little bit complacent that it was only going to be good stuff from here.

And so Friday was a little bit of a breather in that sense. But earnings season is about to start. And I think the markets might just move on to another narrative soon.

HEATHER: Yeah Let's talk about earnings season, because it starts this week. Big banks actually kicking off things today. At the beginning of the year, Jurrien, I know you laid out the expectation that you felt earnings might become the dominant driver for returns in 2025. Is that panning out to be the case right now? And what could this mean for the bull market, what we've seen so far from earnings today?

JURRIEN: Yes. It is what's panning out. And, actually, I would be remiss in not mentioning that the bull market is now three years old as of yesterday. So October 13, 2022, this bull market started. It has now gone up for 36 months and has produced a 95% gain, which actually is really an average result, even though there's nothing about this market that seems average these days.

But, usually, bull markets begin with the PE going up because price tends to anticipate a recovery in earnings. And that, indeed, was the case in 2023. So it was mostly a PE expansion phase of the rally. Then in 2024, the earnings did kick in as expected. But there were still this amplification from valuations. And then, in 2025, my sense at the beginning of the year, when we did our outlook show, was that it's going to be hard for the PE to do a three-peat by, again, amplifying these gains, because it typically doesn't happen that many years in a row, and that we would have to rely more on earnings to do the heavy lifting.

And the earnings growth rate at the beginning of the year for 2025 was about 12.5%. The tariff tantrum knocked down those earnings estimates to 7%. But then the tariffs kind of went into the distance. And the one big beautiful bill replaced it. And now, the earnings momentum is there again.

So it'll be interesting to see if the third quarter earnings season, which, as you said, is starting now, will produce the same momentum that the last two quarters did. And my guess is that it will and that the earnings are going to be what has to carry this market forward.

HEATHER: All right. Well, and happy birthday to this bull market, by the way. I'm glad you reminded us that was the anniversary yesterday. But, Sonu, let's bring you in now. Thanks for your patience. So if you're just joining us, Sonu is a veteran fund manager here at Fidelity.

So, Sonu, this has been such an unpredictable period in this bull market, right? I'd love to find out from you, first of all, just how you've navigated your portfolio amidst all of this uncertainty. And I'd love to hear about how you're thinking and feeling in this moment right now that we're in.

SONU: Yeah, Heather, it's always a dynamic and uncertain environment out there. I'm cautiously optimistic that we've been navigating through a lot of uncertainty, as you mentioned—as Jurrien mentioned, tariffs, global warfare, the Middle East. The bright spot has been corporate earnings, which have been relatively healthy.

And most companies thus far have navigated the tariffs with minimal negative surprises. Inflation readings have been a bit elevated. And we've seen some recent weakness in jobs. The nice thing is that the Fed has started cutting rates. And we'll see if they continue on that trajectory.

The other positive that I'd mention is that there is a lot of innovation going on in the AI space, and that's something I'm paying very close attention to. And we've seen recent announcements with the large investments companies are making. And I'm watching them closely to see how these investments pan out.

But, overall, I think of myself as I get paid to be nervous, so investors don't have to be. It is an exciting time to be an investor. There's always opportunities. But you do need to be cognizant that the market is up a lot—as Jurrien mentioned, three-year bull market anniversary.

If you just think about the launch of ChatGPT, I think of that as the launch of this AI innovation wave, the S&P is up over 60%. It was at 4,000 in November of '22. And now, the S&P is above 6,500. But it is an exciting time to be in the midst of this technology wave.

HEATHER: It is an exciting time. So it's just so valuable to hear where your head is at. So, Sonu, you have decades of experience picking blue chip stocks. First of all, just to make sure everybody's on the same page here, can you explain what a blue chip stock is? And then can you talk about what are some of the characteristics that you look for when you're selecting investments?

SONU: Yeah. Great question, Heather. The way I think about blue chips is I really break them down into three buckets. The first bucket is secular growers. Think of these as companies that are benefiting from long term tailwinds.

I try to identify some themes closely with our research department. And some of these themes in the past decade that I've focused on include e-commerce, digital advertising, health and wellness—we're all trying to eat more healthy, exercise more—and then, more recently, artificial intelligence. The second bucket is what I call cyclical growers.

Depending on where we are in the economic or business cycle, these companies can benefit. These companies typically are participating in industries like housing, financials, or energy, which tend to be more cyclical. And then the third bucket is what I refer to as opportunistic growers.

Think of these as self-help stories or companies where I see a catalyst for change. An example here would be a new management team coming in or a new product introduction. Overall, what I'm trying to do is really find companies that are participating in large, untapped markets with a strong competitive advantage that have solid management teams and can deliver consistent earnings growth.

And what I really try to strive for is companies that can deliver double digit earnings growth or 10% earnings growth. And what that threshold really helps me do is filter out for companies that are not only stable, but growing at a pace that's faster than the market and can drive shareholder value over time. If you look historically, the S&P has returned about 7% to 8% earnings growth over the past 100 years. And, in order to do better than that, I think you need to find companies that can grow faster.

And so it's really trying to fish in a pond with a lot of fish. I do pay attention to quarterly earnings season. I think of them as a report card. And, as you mentioned, we're just getting started.

The market gets to grade these companies. Investors get to grade these companies. And so do I. And sometimes our report cards match up, and other times they don't. For example, the market may punish a company that delayed a new product, or sometimes there's a supply chain disruption. But if the fundamentals remain sound, I tend to use these opportunities to buy on the dip.

HEATHER: Right. You use opportunities. You get paid to be nervous. So you're always nervous. So you can do that for investors so they don't have to be nervous.

In your line of work, that April drawdown after the tariff announcement must have caused some concern. That must have been difficult to navigate. I'm wondering if you could talk about that, too. Negotiations are still happening, so we're not out of the woods yet with tariffs. During times of uncertainty and market volatility, can you talk about how you balance risk management with growth?

SONU: Yeah, no, that's a great question. What we're trying to do is really run a steady ship. What I try to do is focus on companies with strong fundamentals and long term growth potential, as I mentioned. And, rather than reacting to short term market noise around the tariff uncertainty, what I'm trying to do is really emphasizing staying invested in high quality businesses that can weather these economic downturns.

This is a disciplined, long term strategy. And what I do is I really pay close attention to when stocks start to go down, and I keep a roadmap of all these companies. And when they start to hit these downside price targets and I still feel the underlying fundamentals haven't changed, I may start to lean into some of these names that I historically may have shied away from due to high valuations. And I refer to this as really trying to upgrade the portfolio.

Another potential way to avoid tariff uncertainty is really to identify companies that don't deal in physical goods. These are companies such as service companies with subscription models. Think of the streaming services. But the key is, really, maintaining a long term perspective to navigate the headline uncertainty and not to get whipsawed, because the news can certainly change on a dime.

The other thing to keep in mind is that tariffs are really a one time hit to the economy. A year from now, we are going to be lapping it. A great example here is you think of Nike selling a pair of sneakers. This year, they're selling a pair of sneakers that were \$90. They raised the price to \$100 to offset the tariffs. But hopefully, they won't have to raise the prices again next year. And so, hopefully, we'll be past this tariff uncertainty once we lap these a year from now.

HEATHER: All right. So tariffs are one thing. But the other uncertainty that we get questions about every week and that we've been talking about so much recently is the future of AI, of course, and whether this technology might be overblown or frothy. Sonu, I know you've been watching this space since its inception.

So it might be hard for the average person to make sense of what's hype, what's real. We hear a lot of excitement over it, but the impact on our daily lives at this point has been pretty small so far. I'm wondering, with your incredible background seeing these cycles of technological innovation, what is your perspective, what's your thinking on the promise of AI and where it could go?

SONU: Yeah, no, the way I think about AI is I think it represents the fourth major technology innovation cycle in the past three decades. The first was the advent and the development of the internet in the late-'90s and early-2000s. The second one was the smartphone, which really transformed all our daily lives and consumption habits.

The third was the migration of companies' information technology infrastructure to the cloud. And I view AI as really being transformational. This is the fourth technology wave, just like the internet was. But I think it will take time to play out.

And it may evolve in ways that we can't really predict, similar to those previous technology cycles. A great example I like to give folks is when the internet went mainstream in the late-'90s, it was really hard for investors and any of us to imagine what type of business models and companies would get created. But what happened was the second and third order of magnitude effects—for example, the price of taxi medallions crashed because of the internet.

And that was because Uber. But Uber did not raise its Series A until 2010. So it took over 10 years for that to happen. And so I think of ChatGPT, which was launched in late-2022 as, really, the start of this innovation cycle. And we're just approaching three years into this technology wave. And I think it's really hard for us to imagine what type of businesses will get created over the next 5 to 10 years. But we are really early.

HEATHER: So how could this fourth technology wave change the game, Sonu? Do you see traditional blue chip companies adapting successfully to AI innovation? Or are newer companies reshaping the growth landscape? Are they changing the game altogether?

SONU: Yeah. I think it's a bit of both. I view it as my job to figure out which companies are adapting, which companies are taking advantage of AI and becoming stronger, and which companies will become disrupted and struggle in this new environment. And, as you mentioned, there are a lot of new companies which are being formed. And I pay attention to those as well and how they may impact some of these incumbents.

We've seen this cycle of disruption before, and I think we'll see it again this cycle. And I think one of the best examples today is what's happening in the AI chatbot space, like ChatGPT. Many people are now using AI chatbots to do what they did with traditional search engines.

This change in usage behavior has the potential to create new winners and losers across the technology food chain. We're also starting to see examples of what I call agentic AI. This is basically where everyone has an assistant that can complete tasks on your behalf.

For example, one of the early use cases we're seeing is in the travel industry, where an AI agent can really complete travel bookings, airline bookings, hotel reservations on your behalf. So I definitely think we're going to see winners and losers. And we're trying to really sift through and figure out which companies will benefit and which companies may get disrupted.

HEATHER: Hey, Jurrien, I'd love to bring you back in here to the conversation for a moment, because AI has been in the headlines for weeks. But just today, a Bank of America survey came out that caught my eye, and I shared it with you. And it found 54% of global funds managers think we are in an AI bubble right now.

And I know you've written a lot about the parallel between the current AI boom and the internet boom-turned-bubble in the late-'90s. So I was wondering if you could talk about whether you think we're in an AI bubble right now and whether you think history could repeat itself.

JURRIEN: Certainly. All the chat I'm hearing is, are we in a bubble. And it's understandable that people would think that because they look at the late-'90s. And, of course, that was the internet-boom-turned-bubble. And, as we heard Sonu talk, this is another big technological innovation wave. And you're starting to see some of these stocks really pop.

And so history tends to maybe rhyme, not repeat, in terms of the cycle doesn't repeat exactly, but there are similarities. So it's understandable that people are thinking that way. And one of the things about bubbles is that everyone supposedly sees it coming.

They warn about it, then they get out of the way, and then these things just go and take a life of their own. And then everyone sort of jumps back in. And everyone starts to participate. And then the bubble actually crashes.

So my sense is that when people are convinced there is a bubble, and you said more than half the survey thinks it is, then it probably isn't a bubble, which doesn't mean that it's not going to turn into one. There are the parallels to the 1990s—Greenspan raised rates in '94, created a soft landing. Then the market ran, right, as the internet boom got underway, so some parallels there to this current bull market in 2022, and ChatGPT starting in 2022.

And then, more recently, we had the tariff tantrum, 21% decline, a very big recovery, just like we saw in 1998 after long term capital, and then Greenspan cut rates, and then the bubble really was underway. So people put those two things side by side. And they're like, yeah, this has to be a bubble. But, like I said, usually when everyone thinks of a bubble, maybe there's a bubble in bubble talk more so than an actual bubble. So we'll see if it turns into one. But my sense is that this is not a bubble, at least not yet, and that the fundamental underpinnings are still solid.

HEATHER: Sonu, let's talk about internationals now. So we've been seeing huge success overseas. And this year, European stocks, in particular, are posting record breaking returns outpacing domestic stocks. So I'd love to get your view on global exposure—the role of global exposure within a blue chip growth strategy.

SONU: Yeah, absolutely. I look for growth globally. But what I would say is the bar is certainly higher when I look to invest internationally, as there are some risks that are involved. You have to take into account some of the geopolitical risks as well as currency fluctuations. So for me, companies that are located internationally have a higher growth hurdle that they have to go over.

The way I think about international is investors may want to consider finding companies in the US that have opportunities to expand globally. For example, Apple generates over 50% of its revenue from outside the United States from selling iPhones. The nice thing about being a US investor is that there are plenty of good companies here in the US to choose from.

HEATHER: That's for sure. And it has been such a pleasure talking with you, Sonu. And we could talk to you for another 20 minutes. But we do like to try to keep this show to roughly 20 minutes.

So before we wrap, I'd love to just get your final thoughts that you'd like to leave our viewers and listeners with today, Sonu.

SONU: Yeah, sure. What I would just like to remind investors is it's really important to keep a long term time horizon when investing. The famous quote, "Rome wasn't built in a day"—and I think the key to finding good companies, is to find long term growth and let the power of compounding do the heavy lifting for you. In real life, we're all looking to buy things on sale, but when stocks go down in the market, human nature somehow kicks in and we like to sell.

And when stocks are going up, we like to buy, which is the exact opposite of what we do in our everyday lives. We all love good deals. And we're looking for markdown stickers. And that's a good way for investors to think about stocks.

When the markets are down, things are busy. But we're always looking for good opportunities.

HEATHER: Yeah. Who doesn't love a bargain, right? And so if we can just get that shopping bargain mentality mindset on as investors, maybe that would be helpful. All right, we've got to leave it at that, gentlemen.

But thank you so much to both of you—just a really comprehensive, and fantastic, and timely conversation today as usual. And if you at home enjoyed this conversation, our Viewpoints partners, who write financial articles for our website, and they also write articles for our email newsletters, also recently chatted with Sonu.

So if you'd like to read that article or find some more features with some of our other portfolio managers, plus the latest on the government shutdown, check out our Viewpoints Market Volatility page, which is Fidelity.com/MarketVolatility. Big thank you to everybody out there for making the time to watch and listen and send us your questions.

We do read those questions that you submit during registration. On behalf of Jurrien Timmer and Sonu Kalra, I'm Heather Hegedus. Hope to see you back here next week. We are on live Tuesdays at 2:00 Eastern.

¹Fidelity Viewpoints, August 6, 2025: <https://www.fidelity.com/learning-center/trading-investing/blue-chip-growth>

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Fidelity® Blue Chip Growth ETF (FBCG) held a 0.25% position in Nike stock as of September 26, 2025. Fidelity® Blue Chip Growth Fund (FBGRX) held a 8.57% position in Apple stock as of September 29, 2025.

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