

# *Fidelity Viewpoints®: Market Sense*

Week 182 December 9, 2025

## TRANSCRIPT

### SPEAKERS:

Heather Hegedus Kana Norimoto

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**HEATHER HEGEDUS:** Hey, there, everybody. I hope you're doing well, and thank you so much for making the time once again to join us for another episode of *Market Sense*. I'm Heather Hegedus with Fidelity.

So the market has recovered its ground following last month's volatility, and it appears to be on track for double digit returns this year. Pretty exciting, and it comes as right now the Fed is meeting as we speak to discuss a third and final interest rate cut for 2025. So this December meeting also follows the longest government shutdown in history, and that means Fed officials will be voting tomorrow without significant economic data.

Talk about what this could mean for investors, we are thrilled to be joined, as we often are, by Fidelity's Director of Global Macro, Jurrien Timmer. We're also pretty excited today to welcome Kana Norimoto onto the show for the first time. She's a senior fixed income macro analyst here for Fidelity, and she's joining us today to talk about the future of the Fed and where interest rates might be headed in the new year as we look ahead to 2026 already.

And Kana, you're joining us from DC today, which happens to be where the Fed is meeting right now. You're not at the Fed meeting, I should say, but where all the action is today. So that's pretty exciting. Thanks for giving us some of your time when you're traveling.

**KANA NORIMOTO:** No worries. Thank you for having me on.

**JURRIEN TIMMER:** Great to have you Kana. Kana is one of our big brains at Fidelity, so it's a pleasure to be on stage with her.

**KANA:** Pleasure to be here.

**HEATHER:** Real treat the pairing of you guys. And before we get started, something else that's a treat that I wanted to let our audience know about, quick programming note that Jurrien is going to be logging off this call as soon as it's done around 2:20, and he'll be logging on to Reddit to answer questions on Fidelity sub-Reddit for a live AMA, or ask me anything if you're not familiar with Reddit, just starting at 2:30 today. So you just need to log on to Reddit and look for the sub-Reddit r/FidelityInvestments.

And it's a great opportunity to get to be the one in the driver's seat. You can try your hand at my job and be the one that's asking Jurrien the questions.

**JURRIEN:** You'll be sick of me by the end of the day.

**HEATHER:** A whole hour of Jurrien answering questions. Thank you. You're so generous with your time, Jurrien. That's going to be fun.

Well, with that, today is December 9, and Jurrien, after a couple of volatile weeks, both the cap weighted and equal weighted S&P are close to all time highs. I just want to make sure our audience, first of all understands what you mean when we talk about cap weighted and equal weighted S&P. And also what are you going to be looking for in the next few weeks as we round out the year here and we try to gauge the health of this bull market?

**JURRIEN:** So the current bull market began 38 months ago, in October of 2022 after 28% decline, driven entirely by rising rates, and of course, we're talking about rates today. And it's been a pretty good run, again, the S&P 500 index as we know, which is capitalization weighted, meaning larger companies have a bigger influence on the price component of the index. That index is up 100% in just a little bit over three years, which is certainly a very nice result.

And a lot of people think, OK, it's all the Mag Seven and the rest of the market really hasn't done anything, but it's partially true. But the S&P equal weighted index, so when you weight all the companies equally is still up a very respectable 60% in those three years and two months. But it shows you a 40% difference between cap weighted and equal exactly the same companies in that index, but just one is calculated differently.

It does show you the power of those Mag Seven and the whole AI story, and how much of that is fueling the gains in the market. But as of December 9, with only a few weeks left, the market has pretty good momentum. Earnings estimates have been on the rise, interest rates have been very well behaved.

The 10 year yield is at 418, which is on the low end of the range for the year. And of course, we got the Fed in play tomorrow with its announcement. And we had recently that little volatility where some of the more speculative corners of the market that were driven by the AI narrative have been level set a little bit. So I feel pretty good that the market is in a reasonably good place here.

**HEATHER:** The AI trade still fueling the market but still good momentum. And I know December is known for its Santa rally, and perhaps one determination about whether Santa comes to town this year might be the Fed meeting that is underway right now. So Kana, let's bring you in here.

So for folks who missed the top of the show, you're a senior research analyst for bonds and fixed income. And in that role, Kana, I know you watched the Fed really closely and monetary policy as well. So heading into this meeting today, can you set the tone for our audience, Kana, what is the backdrop like for the Fed right now, and how is it different than in previous Fed meetings?

**KANA:** Sure, Heather. So we're going into a very unusual and unprecedented FOMC in many, many ways. So first of all, the aforementioned government shutdown has resulted in a complete paucity of official data from the government. We only recently got the September labor report. The Bureau of Labor Statistics has also said that there are no longer going to calculate the October CPI report, nor the employment report.

So the FOMC is going into this meeting pretty blind and with stale information. And to the irony is we'll get the November jobs and CPI report in December a week after the FOMC. So this is not really going to help with the Fed's current debate as to what the right appropriate setting for policy rates should be. And so whether the Fed should attend to maximum employment or inflation is a big debate, and we're not going to get this resolved just through the data.

**HEATHER:** Which part of the dual mandate the Fed should be focusing its attention on. Given what you just talked about, that backdrop, Kana, how do you think this is going to go? Is a rate cut done deal for tomorrow? And also if we do get another cut, what parts of the economy do you think would benefit most?

**KANA:** Sure. So I think it's likely we're going to get a 25 basis point cut. Like the previous October meeting, I don't think it's going to be a uniform decision. In fact, I think we could see at minimum two dissents, one from the hawks and one from the doves.

But I think Powell will make a concerted effort to deliver another insurance cut to make sure that interest rates are closer to neutral, the neutral level being the rate that neither accelerates, nor slows the economy. However, with Powell's term ending in May, and the unprecedented level of government chatter around monetary policy, the push-pull dynamics within the committee are very unusual and is going way beyond the response to the data.

Just to remind viewers, the Fed only controls the short end of the yield curve, which is to say they only have the ability to enact changes to the overnight federal funds rate. And so any borrower that is closer to the front end of the yield curve, the shortest end of the yield curve, will get a reprieve by 25 basis points. But borrowers who are out the curve on the longer end may not get the same amount of reprieve as the short end.

And just as a reminder, the long end is actually driven by a multitude of factors, which include growth and inflation trajectories, supply demand of treasury supply, as well as confidence in markets that the Fed is actually attentive to inflation.

**HEATHER:** Longer term interest rates, what you mean by longer end of the curve. Things like mortgages, right?

**KANA:** Correct.

**HEATHER:** Another major change that's happening this month is something that the Central Bank had been doing for years, but they're ending this years long process now called quantitative tightening, Kana. I was hoping you could explain in real speak for our audience today what this means and whether investors really need to pay attention to quantitative tightening. And if so, what it could mean for the markets.

**KANA:** Sure, Heather. So investors should definitely be paying attention to what happens with the Fed balance sheet. So quantitative tightening is just a fancy term for the shrinking of the Fed's balance sheet. And just to give some background, the Fed has been using the balance sheet for a while now, ever since the global financial crisis.

When interest rates were pulled down to zero, the Fed had less ammunition in affecting change in the economy. And so it started to use its balance sheet to buy up assets and help support the economy. During the height of COVID in March of 2020, the Fed made significant asset purchases to help shore up the economy and market functioning and increase the balance sheet to \$9 trillion.

And, this certainly helped in improving market functioning, which is the ease and ability to sell and buy securities. Since the middle of 2022, the Fed has been shrinking its balance sheet as the economy and markets stabilized. And the Fed has been shrinking its balance sheet not so much by selling securities, but by not replacing investments once they mature, these are investments like treasuries and mortgage backed securities.

The Fed announced at the October meeting that it would end quantitative tightening from December. And now from this month onwards, the Fed will be reinvesting treasury and mortgage backed security bonds back into treasuries. So as QT comes to an end and the Fed's balance sheet stops shrinking, liquidity and money markets should improve, which should be supportive of markets.

**HEATHER:** So let's just catch people up who perhaps have lost track of where we are in this rate cutting cycle, Kana, I think that would be helpful. So we had two 25 basis point rate cuts this year, one in September, one in October. And then the Fed didn't meet in November, so that brings us to this December meeting.

And the Fed didn't start cutting rates until jobs numbers started cooling, and the labor market continues to be soft. So I'm curious from you, what does that mean for your economic expectations going into 2026 now given that the labor market continues to be soft?

**KANA:** So you're right, Heather. Near term the data has been softer, but I think the economy has potential to re-accelerate into next year. There are a couple of fiscal drivers that we see which are largely coming from the OBBBA, the fiscal package that was passed in July of this year.

So first of all, we have tax refunds coming for some consumers which should support consumption going forward. And then we have 100% depreciation of CapEx, which is capital expenditures, which is effectively to build plants and physical equipment. And this is coinciding with an AI boom where AI companies are doing a lot of CapEx to stay ahead of the race for artificial intelligence.

And so we think that all these factors will lay the groundwork for a better growth trajectory next year. So I do think the deceleration in labor markets is more of a phenomenon in the rear view mirror. And if the economy does better, we do think that inflation will also be stickier next year.

**HEATHER:** Well, curious to hear how you think the Fed will react to these economic conditions. You're talking about re-acceleration of the economy, but you're also talking about sticky inflation. So how do you think the Fed will handle that? And do you think the rate cutting cycle will continue next year?

**KANA:** So next year is going to be trickier because with the re-acceleration of inflation, it will actually behoove the Fed to actually pay more attention to that part of its mandate above and beyond the labor mandate. And so if the economic scenario that we just laid out plays out for next year, we don't expect any further cuts from the Fed.

Already there's been pushback from some of the regional Fed presidents affecting further cuts. And so unless the labor data really gets weakened in the coming weeks or into early 2026, we think that the Powell Fed is at this point fairly done. However, as you know, next year will be a year of two halves. We have Powell in the seat until May, we know what his reaction function is, we know how he's trying to balance both the two mandates that he has.

Whereas the unannounced next new chair will be a new entity or new person that we have to figure out. And we're close to learning, the president's pick for the new Fed chair likely to be announced possibly after the holiday season into next year. And depending on how the new Fed

chair is, the tone will change as to how they deliver monetary policy. And our expectation is that this new chair will want to at least orient him or herself towards Trump's desire for easier policy.

**HEATHER:** President Trump has said that we can expect that announcement about the new Fed chair to come at least by the beginning of next year. Jurrien, I'd love to bring you back in here to enter our Fed discussion here. Given what Kana just said, perhaps a cut tomorrow and then with a Powell Fed, as you put it Kana, the rate cutting cycle might be over. One question that we've gotten from viewers that I think would be good to pose to you Jurrien is, how could that affect stocks and bonds?

**JURRIEN:** I mean, if the Fed cuts tomorrow, it'll be at 3 and 5/8. That's pretty well into the neutral zone at least from my perspective. So if neutral is inflation plus a percent or so, then you're looking at 3 and 1/2 or so right now.

And so I don't think that's a rate that is going to do a lot of harm to the economy or maybe even help it. Although we do have a pretty good fiscal push, people are going to get tax refunds next year. And so if the economy does re-accelerate, maybe some parts of the markets will think that the Fed is maybe done too much. And so then we look at the shape of the yield curve as Kana was saying earlier where maybe the back end like long rates could rise again, and that would be good for some parts of the economy, like the banks would enjoy a steeper yield curve, but it would also bring the cost of funding, the massive deficit also higher.

So I'm looking less at what it means for the Fed, and more at what it means for the shape of the yield curve and how that impacts the economy. But I think at 3 and 5/8, it's a do no harm rate. It's not too low, it's not too high, it's Goldilocks's I think.

**HEATHER:** That's fair. Kana, there's been a lot of buzz in the media that President Trump is likely to pick a more dovish Fed chair and you just alluded to, we should be knowing pretty soon about the outcome of that decision. It's led to a lot talk and concern about the issue of Fed independence. So I was wondering if you get your take on that, what are your thoughts on that issue?

**KANA:** I do share concerns about what next year may bring with regards to Fed independence. As I just said, President Trump has made it clear that he'd like to see lower policy rates. And as Jurrien says, we have to be very careful as to what happens with the back end of the curve.

And so, with significantly lower interest rates, what you can actually stoke is inflation. And that's exactly what we saw in the '70s and the '80s when the Fed chairs were pressured by presidents to ease policy despite inflation. And so that's an adverse situation for the Fed to be in.

However, I do think that we need to put things into perspective. Fed independence has waxed and waned through history, and while the Fed has been a very independent entity for the last 20 to 30 years of its existence, I would say it was not always so indeed in history. During World War II, for example, when the country's fiscal needs were very elevated, the Fed's independence has been subsumed to the overall government's initiatives.

And so, as the Trump administration tries to put government policy back into the driving seat of the economy and capital allocation, perhaps the outsized Fed presence will diminish relative to the government and perhaps trade, industrial, and foreign policy will take a bigger driving seat going forward.

**HEATHER:** Jurrien, how could a Fed that has less autonomy or less independence, however you want to refer to it, how could that impact the markets?

**JURRIEN:** Well, so Kana raises a good point, certainly about the World War II period. But politicians have tried to meddle in monetary policy as long as there has been monetary policy, and certainly in the '60s and the '70s, that was the case as well. It's just like these days we have social media, so we have this megaphone where all the laundry is being put out in public.

But certainly if the market concluded that the Fed has become too political, that it's lowering rates without regard of how justified that is by economic conditions, then inflationary expectations could get elevated, the yield curve would steepen in a bearish way, if you will. And you could even argue that the dollar might start to lose some of its value. And maybe for the average American viewer watching, that's not such a big deal.

But in the global in the global horse race for capital, that could be significant.

And if we take this to an extreme, so it'll be hard to flip the Fed so that they're all policy loyalists. That would take, I think, quite a bit of doing. But let's say the Fed becomes more fragmented where you have the traditional Fed independence-minded, academics on the Fed, and then you have the policy loyalists on the other side and the Fed really gets bifurcated, and a policy decision is made without the full support of the Fed, that's an interesting thing to see.

And how the market would react is unclear, but it might not be positive because remember, for the last several decades, the Fed has been run monolithically. Alan Greenspan ran it with an iron fist. He was the maestro. And even under Bernanke, Yellen, Powell, it's been a very consensus-driven institution. And if that starts to fragment, it would be a whole new ballgame.

**HEATHER:** Well, we'll be watching that next year for sure. And we'll also be watching what happens tomorrow as we wait to hear what Chair Powell has to say during that press conference tomorrow. And I know you're going to be watching it closely. We have time for a Quick Timmer's Take, Jurrien, can you talk about what you're going to be wanting to hear from tomorrow's news conference and also what you're going to be watching in terms of non-Fed news too?

**JURRIEN:** So what the market is watching, as Kana indicated earlier is what we call a hawkish cut, and it's totally inside baseball. But a rate cut, which is what everyone wants, but with a caveat saying don't expect any more anytime soon. And so that's the language I think we're probably going to be looking for.

And then beyond that earnings, season is over, Santa hopefully shows up. And it'll be interesting to watch what the candidates for the next Fed chairmanship, what they say in public about how they would do things differently. That's always an interesting thing to watch.

**HEATHER:** Fantastic job, Kana and Jurrien. Before we go, we always like to leave our audience with a resource to help you continue your investing education. And our Fidelity Viewpoints team just released their 2026 financial preview. It is a page full of articles and insights with some of Fidelity's senior thought leaders, including Jurrien and Kana, they are part of this 2026 market outlook.

It also shares investing ideas and tax tips for the new year, and you can hear more about Kana's thoughts on the Fed and Fed independence, and the future of this rate cutting cycle on that page as well. So just go to [Fidelity.com/Outlook](https://Fidelity.com/Outlook) and bookmark it. And as I mentioned off the top of the show, Jurrien is taking part in an Ask Me Anything or AMA on Reddit 2:30 in just a couple of minutes from now. So you can just head on over to Fidelity sub-Reddit to ask Jurrien anything like the AMA says.

I'll let you go here, Jurrien, I know your Redditors are watching. On behalf of Jurrien and Kana, I'm Heather Hegedus. Hope to see you back here next week.

Remember we are on live Tuesdays at 2:00 Eastern. We're also on LinkedIn, YouTube, and wherever you get your podcasts. Take care everybody.



<sup>1</sup>Fidelity Viewpoints, October 29, 2025: [www.fidelity.com/learning-center/trading-investing/the-fed-meeting](https://www.fidelity.com/learning-center/trading-investing/the-fed-meeting)

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