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TRANSCRIPT

SPEAKERS:

Heather Hegedus   Jurrien Timmer   Jim Armstrong

HEATHER HEGEDUS: Hi there, everybody. Thank you so much for making the time to join us today for *Market Sense*. I'm Heather Hegedus with Fidelity. Right now, stocks are trying to find their footing after their worst day of the year back on Friday. And that day came after softer-than-forecast economic data, including a disappointing consumer sentiment number, and also a surprisingly pessimistic earnings forecast from the retail sector.

This, though, is a big week for earnings, and some more key inflation data is coming this week as well. So more to come on that. And to talk about what some of this data might mean for investors, We're joined, as we often are today, by Jurrien Timmer, of course, Fidelity's Director of Global Macro.

Also today, we're going to be talking about something the new administration has been pretty heavily focused on. And that is the crypto industry. In just a few short months, we have seen a potentially significant shift in US crypto policy that seems to be more friendly toward digital currency. The question is, what does this mean for opportunities for investors?

And we could think of nobody better to tackle that topic than the host of the Covering Crypto livestream here at Fidelity. He's also a team lead in the crypto education space here at Fidelity. Of course, I'm talking about Jim Armstrong, a very familiar face to *Market Sense* viewers and fans, because of course, he is the former host of this very show. Thank you, both of you, for joining us. And Jim, it is always a delight to see you. How you doing, my friend?

JIM ARMSTRONG: I'm doing well. It's a pleasure to be back. Great to see you, and great to see you, Jurrien.

JURRIEN TIMMER: Welcome back. The former and current host all in one room. Room.

HEATHER: I love it. I'm the heir. Thank you so much, Jim, again for this opportunity. Just had so much fun with this show, but it's always great to hear from you and to get your expert insight into the topic of crypto. Before we dive into that, though, today is Tuesday, February 25, and Jurrien, we do have to talk about this market dip.

We want to, first of all, hear from you on what you see to be happening here and whether you think this might be a pattern now, of the stock market being a little bit more sensitive now to new data and events in real time. Is this something that you think we might need to start anticipating happening more and more moving forward now? And how would you characterize the market at this point in time?

JURRIEN: I would characterize the market as sort of churning. If you think about the Magnificent Seven, the big leaders that have propelled this market to new highs over the past several years, they haven't made a new high since December. And if you look at the S&P Equal Weighted Index, which I think is a broader version of what the market is doing, that hasn't made a new high since November.

And so there's an old saying, buy the rumor, sell the news. Now, we're not really selling the news, but we obviously had an election with that. We had a regime shift in Washington. And there's this kind of disruption going on, which a lot of people think is good. And it may very well be good. But as the old philosopher Joseph Campbell always used to say, you can't make an omelet without breaking some eggs.

And so we're in this mode where I think investors have just accepted that this is going to be potentially a groundbreaking period in time where the status quo, the old ways of doing it, the world order, politically, financially, economically, that everything is fair game to try to make changes to. And of course, that could end up really, really well, or there could be all kinds of pitfalls along the way. And I think the market is just trying to navigate that.

So just to give you an example, tariffs. OK, is that a negotiating tactic that actually makes the US more competitive, makes earnings grow, and the market go up? Or is it the start of a trade war which could diminish growth while increasing inflation? So that's not a good outcome. And so if you have a bell curve distribution of outcomes, instead of looking at slightly to the left or slightly to the right of the middle, we're looking at the tails. So it could be really good. It can be really bad. It can be a combination of both.

And as investors, you don't want to sell, because what if it's really good? But at the same time, with this sort of move fast, break things type of mentality that we're seeing in Washington, there is the risk, as disruptive changes are made, that occasionally something goes wrong while also going right. And I think that's kind of what the market here is trying to get its arms around, and that's why we're seeing some volatility here.

Obviously, Friday, we had a bad day today. The market's just trying to find its footing. And so I think we're in that kind of phase where the markets are just—they're on this roller coaster. They're holding on, seat belts fastened, and as long as you have a diversified portfolio and you have expectations that—your view is over the long term, that things are going to be good, then there really isn't a lot you can do at this point other than holding on and keeping your seat belts fastened.

HEATHER: Well, then buckle up, yeah, and just embrace for the ride. So I know that you've talked about the US market being a little bit stuck right now, and there's been a little bit of a shift to international markets, namely Europe and China. I was hoping you could talk about what's going on there in that space and how you think that could impact US investors.

JURRIEN: Yeah. No, it's a great question. , And we know that the US has been dominating in terms of the global markets really for the last 10-plus years now. So it's the US exceptionalism, the Mag Seven, this more dynamic economy, more tech, more growth, rather than as opposed to, for instance, Europe, which tends to be more of a value market, more financials, more bank-heavy. And so this has been a one-way train now for a long time.

And as we've discussed in the past, one of the big questions for me is, at some point, mean reversion sets in. And these other markets, whether it's emerging markets or China or Europe or Japan, when they start to outperform again, which, eventually they will and Europe actually is performing quite nicely right now, so the question I've always had is, can that happen while the overall market goes up?

So there's the beta of markets going up and down. So if you have stocks, markets go up. Obviously, your portfolio does better. And then there's the alpha which is the relative value within that portfolio, growth versus value, for instance. And so my question always has been, can you get the alpha of non-US stocks outperforming while also getting the beta?

And that's something that we don't really have an answer to yet. But the fact that, for instance, Europe has really accelerated, and of course, this is part of this breaking-some-eggs geopolitics, where Europe now is realizing that in terms of NATO, maybe it needs to fend for itself and spend more money on defense and shoring up their own supply chains, and of course, that will be good for growth, even though someone's going to have to pay for it. And so all of a sudden, Europe has come to life.

And so there are pockets that when the US doesn't do as well or is in a state of churn right now, that there are other places to go. And even today, the S&P is down 0.4, the equal weighted S&P is up 0.1%. So even within the US market, when someone's losing, someone else is winning, and it's a good reminder to have an active approach to investing and not have all your money just sitting passively, because the market is going to be heavily influenced by what happens to these Magnificent Seven stocks.

HEATHER: All right. Well, yeah, fantastic reminder. And also, hopefully, we get some tasty omelets out of this. Hopefully, that's how things shake out.

JURRIEN: Hopefully, it's an omelet and not some scrambled eggs with pieces of shells in it, or the omelet on the ground because as you flip the pan, it goes off.

HEATHER: We love the food analogies, and Jurrien is the ultimate foodie. If you follow him on LinkedIn, you know that. All right. Well, we wanted to focus on the topic of crypto today, though, because speaking of changes in Washington since the election and that big bitcoin rally, *Market Sense* viewers have been flooding our inbox asking us questions about crypto.

We've seen a shift, as I mentioned, since the Trump administration took over in January. I think it's a fact, it's widely reported, that the Trump campaign did receive large donations from the crypto industry during the campaign. So Jim, thank you for coming on the show. I was hoping, first of all, you could help set the scene for investors out there and talk about the new administration's potential approach to crypto based on what we know right now and what that could mean for the asset class of digital currency.

JIM: Heather, I think you and I have this in common. We both try to learn as much from Jurrien as we possibly can.

HEATHER: That is so true. We learned one thing school of Jurrien.

JIM: Exactly.

HEATHER: We're graduates of the school of—you are a graduate from the school of Jurrien, my friend. I'm still a student.

JIM: Still a student. Still a student, I think. One thing Jurrien has said a lot on this show, and he comes on the Covering Crypto livestream as well, is this idea that markets don't like uncertainty. And whether that's the bond market, equities, it's also true of the cryptocurrency market. So at a very high level, what I think we saw starting during the campaign, and now in the early days of the Trump administration, is a sense that this new administration might start to bring a little bit of certainty in the form of regulatory clarity to this space.

I think you'd find a lot of investors welcoming that level of certainty and that regulation. How it's going to play out, though, to answer your larger question, remains very much to be seen. We have a lot of proposals, we have a lot of promises, not very much in the way of anything concrete that we can hang our hat on and say, a-ha, here's something we know to be true.

We know, for example, that Trump's nominee to the SEC, the Securities and Exchange Commission, Paul Atkins, is crypto-friendly. We also know that in his very first month in office, the President signed an executive order that did a lot of things related to cryptocurrency, or pointed a direction, I should say, in what Trump could be thinking about in terms of cryptocurrency, looking, it seems, really, to make the US come to the forefront of the cryptocurrency space. Thinking about blockchain innovations here, thinking about working groups that can help do some more substantive thinking on this space, again, really to give the US a more dominant global role in this space.

That same executive order also talked about promoting potentially stablecoins that are backed by the US dollar. So a lot going on in DC, as you mentioned right there. I think, again, at a high level, the markets tend to be receiving it well, because it does feel like some clarity is on the way.

I'll just wrap up, Heather, by saying that if you take a look back and really think about the past year or so, a lot of this clarity started actually to come during the Biden administration more than a year ago, when the Securities and Exchange Commission gave permission for the first-ever exchange-traded product that held cryptocurrency. The spot bitcoin ETP was finally and formally approved back in January of last year, followed a few months later by a spot ethereum ETP.

For a lot of people watching this space, Heather, those were the first obvious signs that maybe there would be some high-level approval and some clarity and regulation coming to this space.

HEATHER: All right. Really helpful context there, Jim. I would love to also just take a step back for a moment, because some of our viewers may not know that much about crypto and may not be interested in crypto, or may be wondering about it but not ready to make any big moves. So I was hoping that we could talk about how crypto is different from investment products.

We've talked a little bit about how crypto is a more volatile asset class. So can you talk about why somebody would want to get into it anyway? What are some of the advantages of crypto?

JIM: Yeah, I think that's a great question. And I think, honestly, that volatility can be seen depending on your perspective, as an investor, as an advantage or a disadvantage. I do have to preface this by saying crypto's high level of volatility means, among other things, that it really is intended for people who have a high tolerance for risk.

Crypto, as an asset class, may be more susceptible to market manipulation than other securities. It's not insured by the FDIC. It's not protected by the Securities Investor Protection Corporation. And investors in crypto really don't benefit from the same regulatory protections that are available to other registered securities, like stocks and bonds.

Having said that, though, you're right, there's a ton of interest in this space. So I like to look at it as all investments being on a spectrum. On one side of the spectrum, you have relatively low-risk investments. For that low risk, you're rewarded with relatively low return. Think about certificates of deposit, money market funds, cash you might have in a checking or savings account at a bank. You're earning very little yield, but you're rewarded with very little risk. You feel like that money is relatively safe.

Go to the complete opposite side of the spectrum where you have crypto just absolutely burying the needle when it comes to risk. For that risk, crypto investors, fingers crossed, are looking for the potential for huge reward. But again, that high level of risk comes with the very real possibility that, depending on what you've invested in, you could lose the entire value of your investment.

So I really think each investor has to think long and hard and do a ton of research about how a cryptocurrency allocation might fit in their existing portfolio. What percentage is right for you is based on your age, your risk tolerance, what you think crypto could perform or could do in the future.

Are you somebody who sees cryptocurrency as a potential store of value that you could hold for years or decades, and then hopefully, it appreciates over time? Or are you perhaps someone who, again, looks at the volatility that we see day-to-day and sees that as an advantage? Maybe you want to day trade and try to claim quick profits off of those swings. How you approach it has very much everything to do with your personality and your risk preferences.

HEATHER: OK. And those are things we talk about every week here on *Market Sense,* your age, your risk tolerance, your goals that you really need to think long and hard about before jumping into any asset class or making any portfolio moves. So if you are comfortable with potentially assuming some of that risk, how do you get started exploring crypto, Jim? And also, how much money do you need to get into crypto?

JIM: Yeah, we get that question a lot as well. And the answer is, even though some of the prices can be a little bit staggering, much like a lot of other investments, you can start investing in crypto with as little as $1. You don't have to be able to drop $90,000 on one bitcoin, for example.

And you're right, buying cryptocurrencies these days is easier than it ever has been. You have a lot of different options, but I think a lot of your viewers are probably finding that the more options you have, the more overwhelming it all can feel.

So I want to talk today about the three main ways to invest in crypto. And I will note that everything I'm about to mention can be done here at Fidelity. Buying crypto directly is done through a product called Fidelity Crypto, which is offered by Fidelity Digital Assets. Brokerage services and securities trading are provided by Fidelity Brokerage Services, a different part of the company that does not—Fidelity Brokerage Services does not offer crypto as a direct investment or provide trading or custody for those assets.

So if you're watching us as a webcast, you just saw a chart pop up on the screen. If you're listening to us as a podcast, don't worry, we'll walk you through column by column. And I will start with buying crypto directly. So if you buy cryptocurrency, you own actual crypto. And I know that sounds like a weird call-out, but you'll see why I said it that way in a moment.

As I mentioned, in terms of risk, this is a high-risk investment subject to wild price volatility. You can hold your crypto in a personal crypto wallet, if you've bought crypto directly. That wallet can be hot, which is connected to the internet, or cold. A cold wallet is offline, not connected to the internet. Or you can have your crypto assets custody by a trusted third party who's responsible for your custody.

If you buy crypto directly, you alone, as the investor, are responsible for tracking any capital gains as well as any capital losses, and then you are responsible for reporting those gains or losses to the IRS every tax season. So that's buying crypto directly.

Option two is a spot crypto exchange-traded product. These are the ETPs that I mentioned ago, either the spot bitcoin ETP, exchange-traded product, or the spot ether ETP. If you invest in an ETP, you do not own actual crypto. You have invested in a financial product that holds one particular cryptocurrency as its only underlying asset. So if you purchase some of the spot bitcoin ETP, you own a piece of that fund. You do not own actual bitcoin.

In terms of risk, it's every bit as risky as owning actual crypto. However, one of the ways in which it differs is that you can hold that ETP in what you might think of as a more traditional account type. So you have it in a brokerage account. You can have it in a trust account. You can have it in a retirement account, just as three examples. And tax treatment with the ETP really depends on which of those accounts you're holding the investment in. But generally speaking, you can expect taxes and tax reporting to behave like they do with other ETPs that you might own.

And then finally, the third option that we're going to talk about today, crypto-related exchange-traded funds or ETFs. I want to pause here, because those are not the same thing as the exchange-traded products. And I think even in financial press, you hear a lot of confusion, financial reporters writing and talking about ETPs and ETFs as if they're the same thing. They're absolutely not.

The ETP holds as its underlying asset, in this case, only the cryptocurrency in question. Whereas an ETF, if you buy an ETF, not only do you not own crypto, you're buying shares of a fund that hold stock in publicly-traded companies that do business in the crypto industry, broadly defined.

So here, again, you don't own actual crypto if you invest in an ETF, you'd own equities. The risk here is still high because the digital assets industry itself is so volatile. But just remember that the underlying assets of an ETF are, by definition, a little more diversified than the other two choices I just talked about, because you're holding a mix of stocks.

And then finally, as with the ETP, you can hold the ETF in one of several different account types. And again, the tax treatment is going to vary based on all of those account types. That is the 2- or 3-minute version of a long, long story, so I hope I didn't go too quickly.

JURRIEN: And let me just add real quickly, in terms of the risk that you just described so well. Us investors in the professional world, we look at Sharpe ratios, which is the annualized return over the annualized volatility. And it's interesting that over the last, let's say, five years, bitcoin has the same or a similar Sharpe ratio to the S&P to a 60/40 portfolio. But both the numerator and the denominator are widely s larger than you would in a 60/40.

And so when you get into crypto or bitcoin, you just have to remember that the two will offset each other. The greater the moon, the greater the drawback that will likely follow at some point. And it's just something to be mindful of, that you're prepared for that ride when you get on the wagon.

HEATHER: Terrific job to both of you explaining something that's pretty complicated in a short amount of time. And by the way, people can download our slides after the show to see that chart that Jim shared and walked us through that gives you your options there. But Jim, quickly, we're getting a little bit short on time here. I did want to talk about crypto scams. There are so many crypto scams out there. So how do you know if you're actually buying a real cryptocurrency or if it's a scam? What are the red flags?

JIM: Probably the best question you could ask, Heather. And you're exactly right. Not all cryptocurrencies are created equally. And so let's be really careful with our terms. I think, sometimes—I mean, I know, crypto ends up being a synonym for bitcoin, which is a mistake. Bitcoin is the largest cryptocurrency by market cap, but there are, depending on how you count, thousands or tens of thousands of alternative coins, altcoins, out there other than bitcoin. Altcoin is the term for anything that isn't bitcoin.

And some of them absolutely are scams. 100%. Which is why we always emphasize needing to do your research. Not all cryptocurrencies are created equally, just like not all stocks are created equally. So it's wrong to say all crypto is a scam. Certainly, some are. Just like you wouldn't say all stocks are a scam. That's an almost ludicrous thing to say, because every equity is very, very different in its composition, and you need to do your individual research.

So how do you do that with crypto? Find out how old the cryptocurrency is. It's not to say that longevity equals value, but if a cryptocurrency has stood the test of time and gone through several cycles, there's a lot you can learn from that. Does the cryptocurrency have a website? Is it a good website? You can judge for that yourself. You should be able to find the cryptocurrency's white paper on that website. Should be very easy to find. It should be fairly easy to read. And that white paper should lay out exactly what the cryptocurrency does.

What problem does it solve? What use case is there for it? Who's investing in it? Who's interested in it? What does the crypto do? That's one great way to figure out the legitimacy or start to determine the legitimacy of a cryptocurrency. Fairly easy online to figure out who other investors are, what types of investors are interested in this particular cryptocurrency, what's the token's market cap? What's its trading volume? Lots of traditional ways that you might think of to investigate a cryptocurrency to determine its potential value for you as well.

But again, I think you're absolutely right to be suspicious of cryptocurrencies. You definitely want to invest in something that's frankly worth your money and not in somebody's meme token or vanity project.

HEATHER: Very, very important. And that's why you can also consider maybe an ETF or an ETP as possible alternatives. All right, Jim. Fantastic job. Real quick. We only probably have time for one more question. So I think maybe a good way to end this, I'm picturing our viewers watching and listening at home wondering, how do I get this into my portfolio? So Jurrien, can you talk a little bit about how digital currency might fit into a traditional 60/40 portfolio, considering its high volatility?

JURRIEN: Yeah, and I'll be very quick. If you're thinking about plays on blockchain, so ethereum for instance or solana or in that side of the spectrum, I would consider it as like venture capital or growth stocks. So I would put that in sort of the right tail of the portfolio where you would have more speculative stocks, for instance.

If you think about bitcoin, and people can differ, my sense is that bitcoin is more of like a exponential gold, like a digital store of value. And that, to me, goes in a different place, even though it still has high volatility. But to me, that almost competes with bonds as a store of value when real rates are low, for instance.

And so that's how I would think of it. But whatever it is, my sense is that given the volatility, a little bit goes a long way. So you don't have to bet the ranch on this stuff. You can just, if you're inclined to do so, just sprinkle a little bit in as, as seasoning, if you will. And that's how I would approach it.

HEATHER: Are you hungry today, Jurrien? I'm loving these food analogies. All right. We've got to leave it at that. Maybe a little bit of a sprinkle of digital assets to consider. Jurrien and Jim, thank you so much for making the time, especially Jim, to you, when you have your own show as well. We always appreciate you coming on and making cameos here on *Market Sense*.

And to everybody out there watching and listening, we always like to leave you with a resource. So right now, get out those camera phones, hover over that QR code right there. We are taking you to our crypto education page today where you can not only learn more about crypto, but you can also sign up for Jim's show, the *Covering Crypto Livestream*. You can also chat with the 24/7 virtual assistant to answer your crypto questions. So get on that page. It's Fidelity.com/Cryptobasics, if you don't have a camera phone, or if listening to us as a podcast.

On behalf of Jurrien Timmer and Jim Armstrong, I'm Heather Hegedus. We didn't have time for a Timmer's Take today, but that's OK, because next week, we are going one-on-one and doing a full Timmer's Take episode. We're hitting on some of the most common-asked questions to Jurrien. That's going to be next Tuesday at 2 o'clock Eastern Time. We hope to see you then. Take care, everybody.

[1]Bloomberg: February 23, 2025: https://www.bloomberg.com/news/articles/2025-02-23/stock-market-today-dow-s-p-live-updates?srnd=phx-markets

[2]Covering Crypto Livestream, January 14, 2025: "Ask Us Everything" Episode 47: www.youtube.com/watch?v=JLbeHi7YE6E

[3]Fidelity Crypto Basics: https://www.fidelity.com/learning-center/trading-investing/crypto/crypto-for-beginners

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