Fidelity Viewpoints®: Market Sense

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TRANSCRIPT

SPEAKERS:

Jim Armstrong Jurrien Timmer Naveen Malwal

JIM ARMSTRONG: Hello, and thank you for joining us for *Market Sense*. I'm Jim Armstrong with Fidelity filling in for Heather this week. We are keeping a close eye on the markets today, as you probably are too, as all investors await some clarity from the Trump administration on those reciprocal tariffs, which are set to take effect tomorrow.

Meantime, we have seen some softening in the markets overall, possibly due to last week's higher-than-expected inflation report. As always, no shortage of headlines to grab your attention. But we're lucky today to have Jurrien Timmer join us. He's Fidelity's Director of Global Macro. And he'll be helping us get to the bottom of those headlines and, ideally, figure out what they might mean to each of us as investors.

Meanwhile, it's the beginning of April, officially the end of Q1 moving on to Q2. So we're going to be recapping some of the big takeaways from the first quarter of this year to help set us up for potential success in the next quarter of the year. To give his team's quarterly report, we're also joined today by Naveen Malwal.

He's a CFA charterholder and institutional portfolio manager here. And he and his team manage millions of client accounts here at Fidelity. Guys, thank you both for taking time to be with us on *Market Sense*.

NAVEEN MALWAL: Hey. It's good to see you both.

JURRIEN TIMMER: Good to see you. Welcome, Naveen, to the show.

NAVEEN MALWAL: Thank you.

JIM: Jurrien, we'll start with you. As I mentioned, it is Tuesday, the 1st of April. And tomorrow, the Trump administration is at least expected to announce a wide range of new and expanded tariffs across many countries. And this, of course, is in addition to the auto industry tariffs that were announced last week. Now, as has kind of become the case, Jurrien, the exact details are a little bit TBD, but would love your sense of how these announcements back-to-back have affected the markets and, potentially, will affect them going forward.

JURRIEN: Yeah. So, obviously, a lot's been going on, and it's hard to believe it's already April five months after the election. And we continue to feel the ramifications of what we call a regime shift, certainly politically, possibly economically. And just to dial back for a moment, obviously, last fall, when the election was deemed to be too close to call, the market was just sitting on its hands.

I mean, the market's always going through price discovery—sometimes quickly, sometimes slowly. And so the market was just in a holding pattern. Then the election happened. It was decisive, right? And the market's repriced very, very quickly.

And a good reminder for everyone watching—markets always reprice faster than you can change your portfolio. So reacting to headlines is often not a great strategy. But just preparing for them by being in a diversified portfolio, which, of course, Naveen was going to talk about today, is generally the better strategy.

So the markets back in November repriced very, very quickly to a risk on, pro-growth type of regime where the government is what we call laissez faire. They're letting the businesses take care of themselves and getting out of the way through less regulation, lower taxes. And I think the market at the time was kind of keeping its fingers crossed that the tariff stuff would be a means to an end, but not the end itself.

And, of course, as markets always do, they anticipate changes. So in November, that news was priced in. And then by December, the markets actually had peaked out. And then that whole playbook started to unwind. And so what was kind of a high confidence playbook in November—stronger dollar, higher yields, maybe stickier inflation, stronger markets—all got questioned as the tariff question started to persist.

And the market started to wonder whether this really was just The Art of the Deal or whether the purpose of tariffs was to bring jobs back. And if that's the case, it's not just a means to an end, but, actually, it is the end. And so the markets had priced in a pretty strong animal spirits kind of economy. And now, they're pricing in the risk—not the reality yet, but the risk that maybe the economy is actually going to suffer some bumps along the road because trade wars are never a good thing for anyone.

They may be less bad for one side and more bad for another, but everyone kind of loses in a trade war. And, of course, then we have the government spending cuts happening. And so the markets are pricing in the risk that the economy will slow significantly, maybe even contract.

And at this point, I would say the markets being down 10% from their highs are pricing in, certainly, a slowdown, but nothing much worse than that. And that doesn't mean it won't happen, but that's kind of where the markets are. They've kind of rebalanced themselves, if you will.

And now, of course, the question is, with this big news supposedly happening tomorrow, liberation day, as they call it, whether we are in a sell the rumor, buy the news situation where the markets, again, they always anticipate. And so now that we actually supposedly will get the news tomorrow, maybe it's less bad than expected, maybe it's worse than expected.

But, in any case, the markets have already anticipated. And so the markets are always a step ahead. And maybe there won't be much of a reaction at all, even though we're all wondering and waiting to hear what the news is going to be.

JIM: You mentioned the word "risk" several times in that answer, and I think that's foremost on the minds of a lot of people watching right now—the prospect of downside risk in the markets, whether that's going to lead to a bear market or a recession. And I know you've often noted in the past that the bond market tends to, as you say, smell trouble a little bit before the equities market does, before the stock market does.

So could you talk a little bit about that? And I know that you'll talk about credit spreads in doing so. So why are they important? And what might they tell us?

JURRIEN: Yes. So equity analysts, the stock market portfolio managers, analysts, they tend to look at income statements—profitability, profit margins, market share, things like that. Bond analysts, especially credit analysts, look at balance sheets. And so not to connect this cycle to the financial crisis back in '08, but back then, there was a tell coming from the credit markets that the economy was getting worse because balance sheets were being too leveraged.

And so sometimes you can get a hint from the credit markets, from the bond markets in general, that maybe something is either afoot or it isn't. And so we look at a wide range of indicators to see whether the correction in stocks is just a repricing, and it's technical, and it's not really anything to worry about. And just to bring you back to last summer, the market corrected 10% last summer, and it was very soon forgotten.

And maybe no one on this show even remembers that there was a 10% correction. They happen all the time. And so if it's just that, then there shouldn't be too many signs from other areas in the market. So bond yields, how they behave, the 10-year Treasury yield is down. It's about 4.2%. So that's, certainly, pricing in at least a slowdown.

But credit spreads, which have been at historical narrow levels recently, only about a percentage point above treasuries—this is for investment grade credit—those spreads are up 20 basis points—so 0.2%. Not really a big deal because corporate bonds and stocks are both considered risk assets. So they should move somewhat in tandem.

So it's not surprising to see credit spreads go up a little bit. But so far, they haven't gone up enough to make us think, OK, there's something really sinister going on here. So, at this point, I think a slowdown is very likely. The GDP estimates have come down.

And it's hard to imagine the spending cuts and potential tariffs not having some effect on the economy. But at this point, there are really no indicators that I can see that are telling us or shouting at us that a recession is looming. And the stock market is not really priced for that at this point.

JIM: Got it. OK, thank you for that. Thank you, Jurrien. Naveen, I want to turn to you now. I think at the risk of trying to win the understatement of the webcast award, it's been a wild ride in 2025 so far.

Think back to how the year started. We had this resilient labor market, solid fundamentals, what felt like healthy consumer spending. And now, in the very beginning of April, pick your metric, right? We're seeing cracks start to come in business confidence and consumer confidence, the Fed talking about lower economic growth.

Really curious to know what your team is thinking about all of those metrics. And then, of course, because you're here, I have to ask the same question—what's your sense about whether or not we are heading towards a recession?

NAVEEN: I agree with Jurrien. I think what we're seeing are signs of more moderate growth, but not necessarily a shrinking economy. So in a few weeks, we're going to have the Boston Marathon here in the Boston area, where Jim and I are—and Jurrien is too right now—and in that race, are you running full speed or a bit less than full speed?

So with some of the headwinds out there, it seems like the expectations on how fast the economy would grow are coming down slightly, but they're not tipping into negative territory. And, Jim, you mentioned how people are feeling. And those are the surveys we're seeing on consumer sentiment. And consumers are feeling down.

And that typically tends to coincide with market volatility and tense news headlines. It doesn't always translate to a recession. So I try to keep that in mind, too—that recessions don't just come about because of how people feel. Typically, I look for data. And right now, the data isn't showing any signs of a shrinking economy.

JIM: Oh, perfect. Well, that's exactly what I wanted to ask you about, actually. What are the harder data elements or signals that you are looking at with your team?

NAVEEN: Yeah, so take last year as an example. We saw consumer sentiment kind of bounce around. Sometimes it was pretty down, but consumers continued to spend money. And we had good economic growth and good earnings growth.

So far this year, we're still seeing positive consumer spending happening. And that consumer spending typically makes up about 70% of the economic growth in the US year-to-year. It's a very powerful driver of economic growth for our country.

And what's supporting that is still a pretty strong job market. And that might surprise people because they're seeing all these federal job cuts taking place, and those are painful to see in some cases. And for folks who are involved, definitely a difficult situation.

Yet, the overall unemployment rate in the US is still sitting around 4%. That's because the economy continues to create new jobs. And some of those workers are finding new things to do outside of the government. And that 4% unemployment is much lower than the long term average unemployment in the US, which is around 5.5%, if you go back to the 1950s. So a very healthy economy in terms of jobs and consumer spending.

As a result, companies are still expecting profits to rise. And, as Jurrien has said time and again, over the long run, stocks have followed the profit growth. And profits are expected to grow. Even though the growth expectations may be coming down slightly, again, it's not a negative profits, right?

It's thinking about, hey, instead of 12%, maybe they'll grow at 10% or 8%. So it's more modest growth. And that is still a growth environment that is not a recession environment the way I look at the markets.

JIM: Got it. I want to also ask you about another fairly big market change or evolution that's been taking place recently—this shift away, some would call it the fall, of the Mag Seven—the Magnificent Seven, those markets, largest technology companies.

They are having their worst quarter in years, a couple of years, at least. And you juxtapose that to some other parts of the market that are actually seeing a resurgence. They're doing better than they had over the past couple, three, four years. Curious if you and your team have been surprised by that evolution and what you think, again, what it means to us as investors? What might it foretell?

NAVEEN: So being in the markets, as long as I have been, for over two decades now and being part of many investment teams, this is very common. It's common to see market rotations, market pullbacks. What's incredibly hard to do is know whether or not something is going to stick. So you're going to have a down week, a down month, or even a down quarter, or even a down year for one part of the market, and it doesn't necessarily mean that a story has broken or has shifted.

And, unfortunately, it only becomes apparent in hindsight. Years later, you can say, wow, I guess that was a turning point, and a turning point led to A, B, and C. As of right now, though, we are seeing some softness in the tech space and some of those Mag Seven companies, but it's hard to know, is this really a shift? Or is this temporary brought on by news around tariffs, news around, maybe, stickier inflation, around competitiveness from AI companies in China?

So a lot of factors in play here. But as a longer term story change, we won't know for many, many years to come. Now, having said all that, how do we think about this?

Well, it's thinking about other examples of this. So, for example, a lot of people were expecting US stocks to continue performing really well versus international stocks in 2025. So far, that hasn't been the case. And then one of my friends, Hannah, on my team, sent me an article just earlier this week or last week about these companies that boomed after the 2020 pandemic because people thought that was a big shift in how the world operated.

But a lot of those companies gave back most, if not all, of those gains once the economy reopened. So very hard to time these things. I think it's a risky way to try to manage money trying to guess and speculate which trends are going to twist and turn over time.

JIM: 100% believe you, but then my next question is, how do you and your team manage portfolios knowing that it's impossible to pick where you are in a trend? Is it about to begin or is it about to end? Are we in the middle? How, then, do you manage that confusion?

NAVEEN: Yeah, so rather than trying to guess and speculate, which can be risky, what we have found tends to lead to a smoother return over time is using diversification and long term planning to build a portfolio. So what that could look like is, hey, within US stocks, for example, rather than just investing in a handful of companies or just in growth in technology, also looking for opportunities in value stocks, and core stocks, and small company stocks—so diversifying into a broader mix of investments may lead to a smoother investment experience over the long run.

In addition to US stocks, we typically also incorporate international stocks because, hey, when stocks in the US are struggling, those markets can still sometimes do well. And so far this year, that's been an example, I think, for many, a surprising example of how that can work where US stocks are down a little bit so far this year, whereas stocks in developed international markets, like Europe, are up over double digits so far this year.

So that's how that can help balance some volatility. The other core part of a portfolio for us will typically be investing in investment grade bonds and short term investments. Those are investments that typically bring you a little yield. They're more stable, in general, than the stock market. So that can help mitigate some of the volatility as well.

And then, when the time is right, we also take some opportunities to invest in strategic positions. So what those are is the idea about investing in something because the economy or the fundamentals support a near-term position in something like high yield bonds, or commodities, or real estate stocks. And the result of all of this is you typically get a portfolio that can withstand volatility more than just investing in stocks.

Having said all of that, a reminder to our viewers that diversification and asset allocation, they don't guarantee profits or gains. And they also don't guarantee you're not going to experience volatility or a loss.

What they can do, though, is help reduce the drops in the market. If you're more narrowly invested by having a broader mix of portfolios, the volatility may not feel as intense for those investors.

JIM: Got it. Thank you for that. Before we move on from the Mag Seven discussion, Jurrien, I'd love to get your perspective on that. A year ago or more, it seemed like people were willing to pay top dollar for these stocks. But it certainly feels like the mood, the vibe, has shifted a little bit. What do you make of that?

JURRIEN: Yeah. So, obviously, the Mag Seven, it started during COVID, as Naveen said. They were the bulletproof stocks, the stay-at-home stocks. And then they became winners because they were immune from rate hikes—remember in 2022 when the Fed was raising rates, because their balance sheets are so strong, they don't really rely on interest rates so much to borrow money.

And so they were deemed winners in that scenario. And then, of course, the whole AI thing really picked up steam, and then they were winners because of that. And so when you add that all up, they've been outperforming for a decade or so.

And they're down 20% from the highs, but at their peak, they were trading at about 40 times earnings. But they had that earnings growth to substantiate those kinds of PEs. Now, the earnings growth has flattened a little bit. And the PEs have come down from 40 to 30 because the stocks are down 20%.

And it's unknowable whether this is the end of the dominance of the Mag Seven or whether it's just a blip on the radar screen. If you go back to the tech boom of the '90s, there were many times where stocks like Cisco, like the bellwethers of the time, would go down 20%, 30% only just to go right back to new all time highs.

And so it's hard to know whether this is the one. But the one thing that we do need to be mindful of is that these stocks are so big—it's about a third of the market, just seven stocks—that if they go down, it's hard for the market to go up, at least the US market. And that's another reminder of what Naveen was saying, that a broadly diversified portfolio, including markets other than the US market, where these Mag Seven are so dominant, is really showing its mettle right now.

Because right now, the global market is doing much better than the US market. And it can be frustrating when you're on the other side of that and the Mag Seven are just dominating all the time. But times like this kind of are a good reminder that the other side can help you as well.

JIM: That's a great segue to my last question for you, Naveen, as we start to wrap the show. We've seen this uncertainty play out, absolutely, in the volatility that you're in was just describing leaving a lot of investors with this fear about not knowing what's coming next and being worried about how they should position themselves for it. What would you say to investors who are navigating this particular time?

NAVEEN: Yeah, these are definitely tests for investors. And what we have found tends to help is having a sound financial plan. So for folks who already have a plan, whether they did it on their own or with a financial professional, they can go back to that plan and just gut check it. Hey, does this still make sense to me? Are the markets down a little bit?

But a good plan typically accounts for volatility. It takes into account your risk tolerance, your goals, your time horizon. I think for most investors, they'll find their plan is probably in pretty good shape. Some may want to make a modest adjustment.

Now, for those who don't really have a financial plan in place, what that might mean is you might just have a handful of stocks that you invested in or a couple of funds you like that you're invested in. But you haven't really thought through the mix of stocks and bonds, US international—how long do you need the money for, things like that.

And here, financial planning can add a lot of value. So, again, whether you use resources on the web, including our own website, or you work with a financial professional, you'll find yourself engaging in these conversations around goals, time horizon, and risk. And it often does lead to a more diversified portfolio, which, again, can't guarantee no losses and can't guarantee a profit, but can typically lead to a smoother investment experience. And this is the time where the market is wobbling when people start to wonder more about financial planning, so perhaps a good reminder to look into that if it's something you've been putting off for some time.

JIM: Yeah, really, really good thought there. So thank you for that, Naveen. Hey, Jurrien, before we go, we'd love to get Timmer's Take for this week. What are you looking at for the next few days?

JURRIEN: Well, so in about a week or so earnings season will start. And so what we're looking for right now is signals to tell us whether this slowdown is just going to remain a slowdown or turn into a recession. And so clues in the markets—credit spreads that we talked about, earnings season, what do the corporations say about their earnings? And if they missed, why did they miss? They'll blame the tariffs, of course. But it'll be kind of like live signals like that that we're going to continue to try to read in the coming days and weeks.

JIM: Absolutely. Thank you for that. Plenty to talk about next week. Thank you both for taking the time to be with us today. And for everyone watching and listening, if you're interested in creating or refining, perhaps, your personal financial strategy or collaborating with an advisor the way Naveen was just talking about, you can head to Fidelity.com/AdvisorSearch. Again, Fidelity.com/AdvisorSearch.

That will help you get matched with a financial consultant in your area. Now, before we go, some real quick but important information for *Market Sense* viewers. Incidents of fraud are rising year after year across the entire financial system. So it's really important to learn the best ways to safeguard your information and your money.

So we want to remind viewers, you should never trust an unexpected call and never trust an unexpected text message that comes from somebody claiming to represent a financial institution, claiming to represent the IRS, maybe claiming to represent technical support. And you should never give out a security code or type into your phone a security code unless you have initiated the call to that organization. So if you've called Fidelity and you get a call or a text back, that's OK.

But an unsolicited call or a text, don't trust whether it comes from Fidelity or any other financial institution. Be on the lookout for scams like that. On behalf of Jurrien Timmer and Naveen Malwal, I'm Jim Armstrong. Thank you for making time to be with us, and we hope to see you back here next week, Tuesday at 2:00 PM Eastern.