# *Fidelity Viewpoints®*: Market Sense

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**TRANSCRIPT**

**SPEAKERS:**

Heather Hegedus    Ashley Tran    Jurrien Timmer

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**Heather Hegedus:** Hello, and thank you for joining us for *Market Sense*. I'm Heather Hegedus with Fidelity. We have had a lot of developments to talk about since we last spoke, as usual. Stocks are higher as traders assess the latest corporate earnings results, and the Dow stretched its winning streak to 11 sessions yesterday, its longest winning streak in six years[1], and it looks like it may be on track to make it 12 sessions by the end of today, so we're watching that.

Also, something that we're watching that is going to be very important here is that the Fed is meeting right now as we speak to decide whether to raise interest rates again and by how much, after that June pause of course. So, to get the big markets picture today, we're going to be speaking with Jurrien Timmer, as we often do, Fidelity's Director of Global Macro. Also, Ashley Tran is with us once again today, she's a Florida based Vice President and branch leader here at Fidelity. And we'll going to be speaking with her and Jurrien about financial planning considerations as we all age and why annuities can be a useful tool to help generate guaranteed income in the current market environment. So, good afternoon to both of you and thanks for making the time as always.

**Ashley Tran:** Thank you, Heather, nice to see you both.

**Jurrien Timmer:** Great to see you both. Happy summer.

**HEATHER:** Thank you, happy summer to you both as well. So today is Tuesday, July 25th. Before we get started, I just had a quick note for viewers here. If you're watching us live, you can submit your questions for both Jurrien and Ashley—this is really exciting—in the comments section, whether you're watching us on our website or whether you are watching us on LinkedIn, and we'd like you to do that because we might use your question on a future episode.

So, right now, as we're talking, we'd love for you to start thinking about your retirement questions and you can type them in the comments section and then next week, we're going to be talking about how to retire early, and we just might use your question, if you submit one.

All right, Jurrien, let's get to it right now, though. Let's start with you for today's show. And for more than a year, you know that key recession warning sign has been flashing, you could say. Of course, I'm talking about the inverted yield curve. That warning sign has never been wrong before, as you have stated here on this show. And yet, a recession still hasn't happened yet, and increasingly, investors are starting to wonder whether we might actually be able to escape a recession at this time. And I asked you about that last week. You said, "Don't hold your breath, the answer to that is no." But what are your thoughts on why the economy has been so resilient?

**JURRIEN:** Yeah, so you know, the yield curve is both the most reliable and the most frustrating indicator, or at least it's one of them. Because we do know that when the yield curve gets inverted and it stays inverted for a long time, as it is right now, and it's actually the second most inverted, meaning short rates have never been this far above long rates since the 1980, you know, cycle. We know that a recession eventually happens. But the leads and lags of when the curve inverts and by how much and when the recession happens is all over the map. And the sample size, right, the number of recessions we've had over the last 50 or 100 years is pretty small. So, what most people do is they take an average of different outcomes and that kind of becomes a playbook for recession investing.

But an average of a small sample with highly dispersed outcomes is almost meaningless, and that's why there really is not that single playbook that just says, okay, the yield curve is here, therefore, I'm doing this. And there are very sound, mitigating factors of why the yield curve this time is not yet biting. That doesn't mean it won't, so it may be a question of recession postponed but not canceled, so maybe this is the 2024 story and not a story for right now. But if you think about it, a couple years ago during the pandemic, the Fed dropped interest rates to historic lows; interest rates stayed low for quite a while; and most homeowners—a lot of the people on this call, I'm sure, refinanced their mortgages and turned them out, right? They went from adjustable to fixed. And there's $13.5 trillion worth of family mortgages outstanding, and the average rate on those mortgages is less than 3%, right?

So, you think about how big a swath of the economy has been relatively immune to rate rises, at least until someone sells their house and buys a new one and then has to get a 7% mortgage. So, again, it's not that the recession won't happen, but it may just take longer to happen because so many, not only people, but corporates as well, have kind of locked in low rates for a longer time.

**HEATHER:** You mentioned recession investing, and you actually have an analogy that I think is pretty helpful on this front that I'd love to share with the viewers. So if you're a regular viewer of this show, then you know that Jurrien is an avid road cyclist. So Jurrien, tell us how that relates to the key questions we're all grappling with these day, like when we get a recession, what can we as investors do about it?

**JURRIEN:** Yeah, so my simple analogy—and by the way, this is me and my daughter at last year's Pan-Mass Challenge. If any of our viewers are from the northeast, they will know what the PMC is and this will be my daughter's 5th year riding and my 25th year riding, so it's a great event. You know, all the funds that they raise goes to, you know, researching and curing cancer. But anyway, so, I'm on the bike a lot. I'll be on the bike later today.

And I've come to realize, you know, I'm always trying to outsmart the market and trying to solve these puzzles about recessions. And I've come to realize that it really is like cycling, right? We do occasionally, unfortunately, have accidents on the bike. It can be, you know, we could get hit by a car; we can hit a pothole, just as I'm putting a water bottle away, and over the handlebars you go, you know. So, there's all kinds of issues, from flat tires to really problematic accidents, and they're hard to predict, but you know they're going to happen at some point. And all we can really do, other than not getting on the bike in the first place, which for me is a nonstarter, all we can really do is be aware of the risks and try to avoid them or minimize them as much as possible.

And you know, I've come to the conclusion that investing around recessions or investing in general is not that different, right? That flat tire is a 10% correction. It could come at any time for any reason or no reason at all. And a bear market, a 20% decline, the odds are about one in five. And recessions come these days, since the 1970s or so, about once every ten years, and they're going to happen. And again, because the leading indicators are so variable, it's really hard to plan for them. And as much as we would like to time our way around these drawdowns, it really is very difficult. So, I think the answer, in my view at least, is to just have a sound portfolio that solves for outcomes, right? Like, we could decide not to invest at all, just like we could decide not to get on the bike at all, but for most of us, if we're saving for retirement, that's simply not an option. You have to be in the market; you have to be in it, you know, to win it, basically.

And so, from there, it's really a question of that—finding an intersection between getting the outcome that you want, which is to grow your money while at the same time having an eye on the risk and making sure we can sleep at night. Knowing that those corrections and those bear markets are going to come, but having the portfolio math still work in your favor.

**HEATHER:** I think that's a really tangible analogy, thank you for sharing that, Jurrien. So glad that you have survived road cycling and haven't had any major accidents. Speaking of riding out today's uncertainties, you know, that can be especially hard for people who are in or approaching retirement. So that actually perfectly leads us into our discussion today of how to protect your money as you age. You know, these days, we are all living longer; we're changing what it means to age. So, Ashley, any ideas on how we can plan for longevity and how we can ensure that we live safely, securely, and independently for as long as possible?

**ASHLEY:** Definitely, and I'll say great analogy, Jurrien. I'm here in Florida, where it's hot, so I won't actually be getting on my bike, but I love the meaning there. And first of all, I want to say that at Fidelity, we believe that true retirement readiness is more than just savings and investments; it's about really living and aging well. A lot of people see retiring as the finish line, but in reality, it's a starting line to another phase of your life. So, the good news is that whatever your situation, you can help improve your retirement readiness and, potentially, the lifestyle that you're able to live in retirement, by learning about what I think are three essential building blocks for retirement income plans.

So, let's talk about those three. The first is have guarantees to ensure your core expenses are covered. And by that, I mean, you're going to want to make sure that your day-to-day expenses or your nonnegotiable costs, such as housing, food, utilities, taxes, things like health care, are covered by lifetime guaranteed income sources, something like Social Security.

The second building block is to have investments with growth potential to help you meet long term needs and legacy goals and account for inflation. Like Jurrien mentioned, we've got to stay on the bike there. And then that third building block is flexibility to refine your plan as needed over time, because life has those inevitable curveballs. For example, maybe five years into your retirement, you might receive an inheritance, or you might have to have your parents move in or experience another significant life event that you're going to have to make adjustments for, and you need a plan that will allow for that.

**HEATHER:** Jurrien, I know this is a conversation you can relate to because you have elderly parents. Actually, one of them, your mom, has made a cameo here on Market Sense before, unplanned, behind you. But would you mind sharing, if you would, please, with your audience, if you're comfortable with this, sharing what planning for their future has been like for you and your family?

**JURRIEN:** Yeah, so I'm incredibly blessed that my parents are alive. And actually, my father is 95 and my mom is 89. This picture is from about three years ago, but they basically look pretty amazing and they're in good health.

**HEATHER:** Like you, too, Jurrien, good genes; good genes.

**JURRIEN:** Yeah, I won the gene lottery, maybe. But, you know, they live in Holland and, you know, one of my brothers is in Amsterdam. My other is in Aruba, where I grew up. And I'm, of course, in Boston. So, we're all fairly spread out. And so, you know, they're in Holland, so they have the European, you know, system in terms of health care. So, we're not that worried about medical issues, but obviously, they're old. And what we worry about, or what I worry about the most is, they live in a home that, you know, in Holland, homes are smaller than in the US, and so, their way to get up to the second floor of their house is through a spiral staircase. There's no elevator; there's no room to put in an elevator. And you know, especially my dad at 95, you know, I mean his body is wearing down. And the time is going to come when he might not be able to get up the stairs. And so, you know, how do we fix that?

They're adamant that they're going to stay in their house. They don't want to go into a retirement home. So, planning around that and dealing them the message that says, you know, we may have to invest in one of those chair lift things that goes up the spiral staircase, how do you break that news? Do we even have one that fits on their staircase? Do we outfit that before they need it, or do we run the risk that someone has a fall and then it takes, you know, two months to install it? So, it's more like logistical things about how to get, you know, how to get from here to there and make that as positive an experience as possible. So, it's mostly on that side.

And then, of course, if something did happen, because we are so spread out, what that would look like in terms of just, you know, traveling over there or maybe bringing someone over here. And so, those are kind of the things that we're dealing with.

**HEATHER:** Gotcha, Jurrien, I take it they probably don't have too many ranch style homes in Holland, like my parents are in, without stairs, right?

**JURRIEN:** No, no. It's all vertical and the scale is much smaller in Europe than it is here in the states.

**HEATHER:** Absolutely, well, you know, Ashley, Jurrien brings up an important topic here about, you know, what about the inevitable health problems that creep up on us, and also, what about the unexpected medical issues that also happen that end up affecting our independence or our quality of life, eventually, or that of our loved ones? Can you give us some suggestions on some of the things that we can do now to plan for that happening in the future?

**ASHLEY:** Sure, and I think inevitable and unexpected seem to go hand in hand these days, as it seems like those kinds of situations just have a way of sneaking up on people and adding up, too, like Jurrien mentioned with his parents. Those expenses can add up very quickly. So, we always tell our clients, the time to plan for that is now. And Heather, I'd like you to actually guess this. If I had to ask you how much you think a 65-year-old retiring right now needs to save just for health care alone in retirement, what would you guess?

**HEATHER:** I'd have to say maybe a year's salary? Maybe somewhere between $70,000, $80,000?

**ASHLEY:** Yeah, it's actually quite a bit higher than that. So, a new Fidelity study found that a single person retiring at the age of 65 this year may need about $157,500 saved after tax.[2]

**HEATHER:** Wow.

**ASHLEY:** That's $157,500 after tax.

**HEATHER:** And that not how much your saving for retirement, that's just how much your saving for healthcare in retirement, separate from your retirement account.

**ASHLEY:** Exactly, just for those healthcare expenses in retirement. And I'll add, that's if you're relatively healthy. If you have a chronic condition, it could be a lot more. So, there's a lot of money that people are trying to save there. And one way that we can help reach that target number is by really maximizing our resources. So, using something like a health savings account or HSA, where your money can grow tax efficiently to pay for eligible health care expenses, or you can use the money from your HSA tax free to pay your long-term care insurance premiums with the maximum annual tax-free amount based on your age, of course. And you're eligible to open an HSA as long as you are enrolled in a high deductible health plan. So, even if your employer doesn't offer an HSA, you can still open one through a financial service company, somewhere like Fidelity.

And another option to consider would be long term care insurance. Medicare does not pay for long term stays in nursing homes. You would generally have to spend down your assets efficiently to potentially qualify for Medicaid in order to get that covered, so it might be worth looking at other avenues there, and that's where long-term care insurance comes in. But that can be very expensive as well, and you'll want to buy a long-term care insurance policy sooner rather than later before you need it, because if you wait until you're older, it actually becomes more expensive and could be cost prohibitive.

**HEATHER:** Okay, you know, to tie this all back to the economy, since that is one of the things this show is about, Ashley. With inflation still a problem right now, though it is improving, and the possibility of a recession's still looming, as we've been talking about, you know, people are searching for predictable income strategies more than ever these days to try to help meet their retirement needs. Can you give us some suggestions there on some predictable income strategies?

**ASHLEY:** Yeah, actually we are getting a lot of calls from clients asking us to help come up with solutions for predictable income. And I always tell clients, the best way to combat uncertainty is to get yourself a guarantee. And you can get that guarantee by essentially paying to transfer your risk to an insurance company. And that's where an annuity can be a solution. So, annuities are essentially a contract between you and an insurance company that provides regular payments and can give you guaranteed or predictable income. Another way to look at it, dependable income during times of market volatility.[3]

And there are a lot of different types of annuities. You will, of course, want to talk to a financial professional about this. But some of them will pay a fixed rate; some of them will pay variable rates and have upside potential with some market exposure; some of them you can buy for immediate income that you need; some of them you can buy to guarantee yourself income in the future. I'll be remiss not to mention that in previous years, people may have been more circumspect about investing in annuities because they have a reputation for being complex and having what could be considered high fees, but now there are some annuities which are a lot less complex, very easy to understand, simple, and lower in fees. And the rates are going up, so you're getting bigger payments that you can take advantage of right now. [4]

I mentioned earlier, having a guarantee for your essential expenses, and you can use annuities to pay for essential expenses that aren't covered by your Social Security or pension income. And that could include your long-term care insurance, which I was just saying could be expensive, or for something like a nursing home or other assistive living or health care expenses. Ultimately, annuities can help manage three main retirement risks; namely, market volatility, the possibility you could outlive your savings, and then the risk that inflation is going to eat away at your savings.

**JURRIEN:** Just from a personal anecdote, I'll add to that, the risk of outliving your savings. My parents might—dad retired in the 1980s. He ran a business in Aruba, where they lived for 40 years. And there wasn't really a pension in that company, it was a small company. So, he bought an annuity from like a Swiss life insurance company or something like that. And they offered him an option that if he lived past, I think it was 75 or something like that, you know, for a relatively small sum, he could buy the option of continuing that annuity past that age. And you know, at this point, he's outlived that point by 20 years, so he's had a free annuity for the last 20 years. So, I don't know if that exists in the states, but you know, that was a really good move on their part back then.

**HEATHER:** I'll say, Jurrien, wow they certainly got their money's worth out of that insurance company. Wow, incredible, well I'm glad your parents are still with us, Jurrien, and thriving, it sounds like. All right, before we go, Jurrien, what are you watching this week?

**JURRIEN:** As always, the markets come down to earnings and interest rates, and of course, the Fed is meeting this week and will very surely or very likely raise rates by another quarter. That's pretty baked into the cake. And they will probably likely continue to strike a hawkish tone, saying we're going to stay higher for longer, even if they're mostly done raising rates. And then, of course, we're right in the meat of earnings season. 120 companies have reported, 40% of the index is reporting this week. So far, 80% are beating estimates by an average of 6%. So, so far, so good. But you know, earnings, it feeds right into that recession narrative that we were talking about earlier.

**HEATHER:** All right, well, we know next week you'll be breaking all those developments down for us. All right, great conversation to both of you, Ashley and Jurrien. Jurrien, I appreciate those photos. You know, we appreciate any time that we can get to know you a little bit more, and I think that your personal stories are going to help a lot of people out there. So, thanks for sharing that today.

To our audience, one last call right now to leave those early retirement questions for us directly under the live stream on LinkedIn or on our website. You only have another minute to do that, because that feature's going to be turned off once the show ends. So, again, we want to find out from you what questions you would like answered next week when we address the topic of retiring early.

Also, Fidelity has a lot of resources for you, so go ahead and scan the QR code right there on your screen right now, or if you would like to do so, you can type in the URL, especially if you don't have a cell phone with a camera. And that's going to take you to a webcast that gets even further into this very topic, that our partners in Wealth Management here at Fidelity just put together on this topic. So, as always, if you have questions about making a financial plan or staying on track, Fidelity can help with that as well. Call us, go online to our website, or download Fidelity's app to learn more. Great conversation today. I'm Heather Hegedus, thanks for your time. Have a great week and we'll see you back here next Tuesday.

[1]CNBC 7/24/23 https://www.cnbc.com/2023/07/23/stock-market-today-live-updates.html

[2]*Estimate based on a single person/couple retiring in 2023, 65-years-old, with life expectancies that align with Society of Actuaries' RP-2014 Healthy Annuitant rates projected with Mortality Improvements Scale MP-2020 as of 2023. Actual assets needed may be more or less depending on actual health status, area of residence, and longevity. Estimate is net of taxes. The Fidelity Retiree Health Care Cost Estimate assumes individuals do not have employer-provided retiree health care coverage, but do qualify for the federal government's insurance program, Original Medicare. The calculation takes into account cost-sharing provisions (such as deductibles and coinsurance) associated with Medicare Part A and Part B (inpatient and outpatient medical insurance). It also considers Medicare Part D (prescription drug coverage) premiums and out-of-pocket costs, as well as certain services excluded by Original Medicare. The estimate does not include other health-related expenses, such as over-the-counter medications, most dental services and long-term care.*

[3]How to manage your retirement asset allocation | Tips for planning during inflation and possible recession| Fidelity https://wwwxq1.fidelity.com /learning-center/personal-finance/retirement-asset-allocation

[4]Source: What are annuities and how do they work? (fidelity.com) https://www.fidelity.com/learning-center/personal-finance/retirement/what-is-an -annuity