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TRANSCRIPT

SPEAKERS:

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HEATHER HEGEDUS: Hi, everybody. Thank you so much for making the time today to join us for another episode of *Market Sense*. I'm Heather Hegedus with Fidelity. So as we kick off the second month of 2026 already, earnings season is now in full swing and off to a strong start. More big tech companies are on deck to report over the next few days, tomorrow and Thursday. And it's also been an eventful start to the year in terms of news headlines. Several geopolitical events and the president's pick for a new Fed Chair were just announced come to mind when I think about some of the big developments that have happened so far this year.

So to talk about what this could all mean for investors, we're joined today, as we often are, by Fidelity's Director of Global Macro, Jurrien Timmer. We are also thrilled today to welcome your new face to the show, Shilpa Mehra. She is a portfolio manager here at Fidelity. And one of her areas here is mid-cap stocks. So mid-cap stocks historically represent companies that are often past that risky startup phase, but still have significant room for expansion. And she's going to be getting us up to speed today on some of the trends happening in her world and letting us know what investors might want to know about this space.

So I know you have packed schedules. It certainly has been a busy start to the year. Thanks to both of you for making the time. I'm excited for this conversation. And welcome, Shilpa.

SHILPA MEHRA: Thanks for having me, Heather. It's great to be here for the first time.

JURRIEN TIMMER: Good to see you both. Greetings from Tampa, Florida. And welcome to the show, Shilpa.

SHILPA: Thanks.

HEATHER: Jurrien, you're so lucky to be in sunny Florida today while Shilpa and I are back here in Boston.

JURRIEN: It was 44 degrees yesterday here. But anyway, cold.

HEATHER: Well, that makes me feel a little better. I'm not having quite as much FOMO now, Jurrien. Thank you. So it is Tuesday, February 3. As I mentioned off the top, President Trump has nominated Kevin Warsh to become the next chairman of the Federal Reserve. We now know, Jurrien, he was one of the names that were the two Kevins that had been thrown around. He was one of the Kevins. Tell us what we know about Kevin Warsh. What do we about him and his background and where he stands on Fed policy? And how much of that really matters in the grand scheme of things, Jurrien? How much influence can a Fed Chair have?

JURRIEN: I think it matters quite a bit. And certainly, Kevin Warsh was, I think in the market's view, a solid pick. He still needs to get confirmed. But he's been on the Fed before. So I don't think there will be any issue there. But he's generally well respected in the markets. And he's not considered what, I would call, a perma-dove.

There was some chatter about, will someone head the Fed who is just going to bend to the political wills of the day and cut rates or try to cut rates to unrealistically low levels? And he is not seen as that person. That doesn't mean he's not going to try to cut rates or anything.

But I think the most interesting thing about Kevin Warsh—and he came onto the Fed. He's very young. I think he's 55. He came on. He was at the Fed during the global financial crisis. And he is—he's always been critical of the Fed using its balance sheet as a active tool of monetary policy. And certainly in the eyes of some parts of the markets—the precious metals, the Bitcoin, the dollar—I think that is an important nuance to be mentioned.

So my sense is that he's a solid pick. He's well respected. He's going to sail through the nomination process. And my sense is that he will work with the secretary of the Treasury, Scott Bessent, to coordinate the debt management side. So I don't want to say the Fed is going to lose its independence or anything like that. But at a time of, what I call, fiscal dominance where there's a lot of deficit spending, there's a very large debt burden, I think coordinating, to some degree, on what the Treasury is issuing in debt, what the Fed is doing in terms of regulating the banks and this and that, I think is probably an important thing, a necessary thing. And the two gentlemen each other very, very well. They both worked under Stanley Druckenmiller, a very famous hedge fund person. And so in that sense, I think there will be a fair amount of coordination there.

HEATHER: You mentioned gold, Jurrien. I do want to talk to you about that because the Warsh nomination did take some of the wind out of the sails of the debasement trade, the gold rally, which led to a sell off in gold and silver on Friday. I'm wondering what your thoughts are on that. Is the Buy America trade back now? Can we say that?

JURRIEN: It's a good question. And certainly, there were a lot of fireworks last week. Gold, of course, has been on a huge tear. And silver joined in for the ride. And of course, Bitcoin has been part of that narrative, although it hasn't really done much lately. And of course, the dollar was weakening because there were some comments by the president about the dollar not being too weak or something like that.

And so what typically happens is you have a trend. Gold goes up because, let's say, the Chinese central bank is buying it. Then, people, speculators recognize the trade. And they start to jump on that bandwagon. And then, it goes too far as it always does. And then, you have this headline. And on top of that, we had changes in margin requirements by the exchanges. And so those two things together and the fact that too many speculators were in the trade was the thing that kind of snapped it. And gold had a very significant correction. Silver had a huge correction. And Bitcoin is at $77,000 now. And the dollar has bumped up.

I don't think it really changes the overall trajectory because whoever's at the Fed is not going to change the fact that there's a lot of debt out there. That and more debt that's going to be issued. So I think the debasement trade is still there. But this was a correction that was bound to happen sooner or later. And that's how the markets roll.

HEATHER: Well, we're going to be devoting an entire episode next week to gold and silver. So we'll be looking forward to your thoughts on that as you continue to monitor those developments. But I want to bring Shilpa in now. Shilpa, thanks for your patience. We're really excited to have you on the show today because you're a portfolio manager here at Fidelity who focuses on finding high growth potential. I think this is something that our audience is really going to hear about today. So I was hoping we could start off by having you talk about how you go about finding compelling opportunities and what features you look for when you're looking for those opportunities.

SHILPA: Yeah, thanks for the question, Heather. So I try to find companies with above average earnings growth or those exhibiting some positive inflection in fundamentals. So what do I mean by that? I'm talking about significant and favorable change in the company's core financial metrics. Really think about it as a turning point where the company's underlying business operations show marked improvement, which might indicate strong performance ahead.

Typically, a company stock price today reflects the market's expectations of future earnings power. Opportunities arise when the rate and/or sustainability of earnings growth is underestimated. So some of the characteristics I'm interested in are, first, high barriers to entry and, second, long-term structural trends that really provide the foundation for durable growth. The key is to turn over as many rocks as possible in hopes of finding the best ones.

So by investing in mid-cap stocks, you're really tapping into companies that may still be growing, innovating, and expanding into large markets. It's a chance to invest in the future blue chips of the market, much like the Magnificent Seven were in their early days.

HEATHER: So you said, many of these mid-cap companies, Shilpa, often fly under the radar when it comes to investing. So they're sort of in that sweet spot. They don't have the household recognition of the big tech names like the Mag Seven, nor do they have the reputation for rapid growth potential that small caps can typically enjoy. So I was hoping we could just level set here and you could talk about what exactly constitutes a mid-cap stock. What size company, typically, is considered to be a mid-cap? And why do you think mid-caps are frequently overlooked by investors?

SHILPA: So it's interesting, Heather, the official range of mid-cap companies is actually pretty large. It's generally $100 billion market cap for the largest name and around $1 billion market cap at the small end in the benchmark. So when I think about the sweet spot of mid-cap companies, it's in the $20 to $50 billion range. That's where really a lot of the cap is concentrated. Some of the largest companies in the S&P 500 right now were mid-cap companies 10 years ago, demonstrating the immense growth in market value and profitability that mid-cap stocks can offer.

Mid-caps have historically been under the radar because mid-cap stocks have a lot less research coverage from analysts compared to large-caps, which creates opportunities for skilled investors to uncover undervalued companies. These companies are really interesting because they have strong growth potential with large addressable markets. They also have established business models and strong management teams relative to more volatile, smaller-cap companies. And they're often nimbler than large cap companies, which allows them to adapt more quickly to changing conditions.

Finally, finding these companies and then doing deep dive research on their balance sheets and cash flows might be a challenge for an individual investor. So it could be helpful to consider mid-cap focused funds if you're interested in something like that.

HEATHER: All right. So we do have a lot of DIYers who watch and listen to our show. So it could be a lot for a DIY investor to do this homework themselves.

Nonetheless, though, I think it would be helpful to talk to you today about the sectors that you think are doing well in this space so that people really can fully understand what mid-caps are. That was interesting to me that mid-caps constitute up to $100 billion. I mean, that's crazy to me that that's still mid-claps and not large caps.

So let's try to get a better feel here for what midcaps are. We talk a lot on *Market Sense* about AI. And that's one of the biggest themes in the market right now. How does AI play into mid-caps? What are your thoughts on the AI trade?

SHILPA: Yeah, it's definitely the topic du jour right now. And my strategy here, Heather, has been not to predict the winners and losers of AI because I think that's pretty tough to do right now. I have researched the picks-and-shovels companies that are enabling the massive data center bill to take place. And just for context, the phrase picks-and-shovels comes from the California Gold Rush, where sellers of picks and shovels or tools made more consistent profits than the gold miners themselves.

I think it's too early to who the winners and losers in AI will be or which model will be dominant. And this could change given how early we are. But I believe the picks-and-shovels companies are more likely to be winners in the supercycle of investment. As these industrial companies benefit from this supercycle, I think they could see acceleration and that's via higher margins, being able to raise prices without much customer impact, and having better long-term visibility into demand, which they haven't really seen before.

The picks-and-shovels are also huge beneficiaries of the thematic of reshoring back to the US. This is an important growth thematic over the next several years as the Big Beautiful Bill incentivizes investment in US manufacturing, semiconductor fabs, healthcare manufacturing facilities, and energy, among other areas. So not only do you get the tailwind from AI, but you also get reshoring tailwinds as well.

HEATHER: Jurrien, I want to bring you back in for a moment because, as Shilpa mentioned, reshoring is going to be a big theme due to the administration's emphasis on this topic. So if more and more companies are finding themselves to be less reliant now on global manufacturing, Jurrien, what could that mean in terms of the big macro picture? What could that mean for the global economy?

JURRIEN: Yeah, so it's been my view that the unipolar world where the dollar reigns supreme, since World War II really, is ending and that we're now in a multipolar world where we have these different spheres of influence. And we see this play out in the media almost on a daily basis. We have the China sphere, the Russia sphere, obviously, the Western hemisphere, they call it the Monroe Doctrine, or the Donroe Doctrine now. And so this notion of countries engaging in industrial policy, state capitalism, the way China has done for years, I think, is very important for the companies that—including the ones that Shilpa covers—that are more domestically focused, that could be swept up in that umbrella of companies that are considered—or industries that are considered strategic for the US.

HEATHER: All right. Shilpa, let's get back to the mid-cap themes that you've been watching. I know another theme is commercial aerospace. What falls under the category of commercial aerospace? Where do you see potential opportunities there?

SHILPA: Yeah, so just to give you some context. With COVID, obviously air travel was shut down. And the entire travel industry was entirely shut down. So over the past few years, travel demand, both domestic and international, has recovered. As we have gone back to normal levels of travel demand, we've seen significant supply chain issues that have led to a massive shortage of airplanes. In this environment, we've had to use the existing planes more, which has led to a great environment for aftermarket market airplane parts. These are, for example, seatbelt fasteners or lighting equipment on airplanes.

And that's all regulated by the FAA. Once you start using a part, you can't change it. So the companies providing aftermarket parts, as well as parts for engines, particularly those that have some scarcity linked to their parts, have been in a great environment with very significant volume growth coupled with significant pricing power. Some of these companies also benefit as new plane production ramps ups. So we remain in a positive cycle in commercial aerospace for both aftermarket parts and new parts for planes.

HEATHER: It does seem like airlines are using airplanes longer and longer now before they retire them. That's fascinating, Shilpa. Another theme that I know you've been watching is the defense sector. And you've written about how advances in technology have reshaped the opportunities in that space. Can you walk us through how the defense landscape has changed in recent years and the opportunities that might lead to?

SHILPA: Sure. So the landscape has definitely changed a lot. Modern warfare is being fundamentally reassessed. And really, the priority has been given to unmanned systems like drones and planes, as well as just an overall focus on modernizing and innovating on the defense industrial base. There's also been a large increase in federal funding, which is underpinned by $13 billion in US unmanned programs through the OBBB and fiscal year '26 budget, along with NATO's proposal to raise defense spending targets.

Adding to this momentum, Trump recently floated $1 and 1/2 trillion of defense spending for fiscal year '27, which could be a systematic accelerator for the whole sector, given all the geopolitical tensions. And then in this context, there's a shift toward speed, scale, and cost effective solutions. And this materially benefits smaller defense tech companies that can provide highly innovative solutions at very cost-effective levels.

JURRIEN: Yeah, I would just add, again, to what I said earlier also. The reshoring, the state capitalism, this multi-polar world, I mean, it benefits basically every industry that Shilpa is discussing. So it's an interesting place to focus on.

HEATHER: Certainly is with global macro dynamics changing, technological change. There's so much to keep tabs on these days. And I guess that would be a good place to sort of end things with you, Shilpa. With so much changing, I'm just wondering how you, as a portfolio manager here at the top of your game here at Fidelity, how you stay on top of things and what you feel have been some of the keys to your success in your role here at Fidelity?

SHILPA: That's a great question, Heather. Investing always involves dealing with uncertainty. And it certainly does feel like the level of uncertainty has been increasing. I think what's really important when dealing with uncertainty is to have a very clear philosophy, process, and understanding of key drivers so that you don't get lost in the noise. Another thing that's important is always having the long-term in mind and being patient, as the market can be very reactive to short-term data points. And finally, making sure your research process is intensive and insightful and you're on the ground doing the due diligence is really important. Things change often, so being flexible and open minded is also core to it all. Uncovering new ideas is critical. And it's all about staying disciplined and executing on your philosophy over the long run.

HEATHER: Well, it's clear that approach has been paying off for you. So I really appreciate you sharing some of your secrets, some of your approach with us today, Shilpa. We do try to keep this show to 20 minutes because our audience's time is valuable. We do have time for a quick Timmer's Take though. Jurrien, what are you watching this week?

JURRIEN: I'm watching the remainder, let's say, of earnings season. About 170 companies have reported so far. Typical stats, about 80%, are beating estimates by about 9 percentage points. So certainly it's been a good quarter on the heels of another good quarter, which was the third quarter. So I think we have some good earnings momentum there. And I just wanted to just say one last thing about what Shilpa is talking about. And I think it is a great little niche in the markets because the large cap space—which Shilpa stocks will probably become someday—it's so concentrated, basically 10 stocks are 40% of the market. So if you're a passive investor and you're buying large cap exposure to the S&P, you're essentially buying 10 stocks. So having some diversification, either to international equities or mid caps or even private markets, I think is a good, holistic way of looking at the world these days.

HEATHER: Just a terrific discussion today. A lot of food for thought for our audience today. So thanks to both of you. And if you like this episode, we are planning to add more Fidelity portfolio managers to our calendar in 2026. So we have a resource that we would like to leave you with also as a place to find more insights from portfolio managers, just like Shilpa. You can bookmark this page. It's on your screen, Fidelity.com/pminsights. And that page is updated regularly with articles and videos on all the latest investing themes, like Shilpa was talking about, and trends.

On behalf of Jurrien Timmer and Shilpa Mehra, I'm Heather Hegedus. Hope to see you back here next week Tuesday at 2:00 Eastern. Remember, you can catch us live on those at that time slot. And we're also on LinkedIn and YouTube and wherever you get your podcasts.
Bye, everybody.

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