

# *Fidelity Viewpoints*<sup>®</sup>: Market Sense

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## TRANSCRIPT

### SPEAKERS:

Heather Hegedus Jurrien Timmer Jalen Glenn

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**HEATHER HEGEDUS:** Hello there, everybody. Thank you so much for making the time to join us for another episode of *Market Sense*. I'm Heather Hegedus with Fidelity. The Fed's first rate hike in three years has investors debating the path ahead. It's also creating uncertainty across the markets. Stocks have been wavering while bond yields continue to rise, and investors are still trying to figure out what exactly is priced in and what might not be priced in.

So joining us to talk about these headlines and what they might mean for investors, as he often does, we are thrilled to be joined today by Jurrien Timmer, Fidelity's Director of Global Macro. We are also pleased to welcome a new face to the show today. I'm really excited to introduce our audience to Jalen Glenn. He leads our ETF Product Strategy across Fidelity's brokerage business here. And Jalen's focus is making it easier for investors to trade Exchange-Traded Funds, ETFs, one of the fastest growing segments of the investing landscape, because today investors have access to a wide array of strategies.

And we wanted to have this discussion today because we are already at that time of year when we really do need to start thinking about filing our taxes. And there are some ways to use ETFs to help reduce the taxes on your capital gains that we're going to ask Jalen to get into today. So Jurrien and Jalen, thank you so much for taking time out of your busy schedules for this show. Jalen, welcome. Welcome to Boston. Jalen traveled up here to Boston for the show. So Jalen, hope you're enjoying your trip up here in Boston.

**JALEN GLENN:** I am. Thanks for having me. Excited for today.

**JURRIEN TIMMER:** Yeah, good to see you both. Welcome, Jalen, to the show.

**HEATHER:** All right, with that, today is Tuesday, September 22. And Jurrien, we anticipated that the Fed would hike. The market had a 90% prediction that it was going to be doing that. That was one of the big stories of last week. But between that and oil prices, there's been a lot to talk about. So can you, first of all, just level-set for us here, set the table, and catch us up on what's been going on that you're watching right now?

**JURRIEN:** Yes. It's interesting that on the surface level, things seem awfully quiet in the market. But of course, we know better than that. And there are a lot of moving parts and a lot of crosscurrents. But if you think about just the S&P 500, the benchmark we all look at, it has gone basically sideways for the last four months or so. Even though earnings are booming—they're growing 30%, 40%—the Fed is raising rates again, as you mentioned.

And I think of it as taking back what were three insurance rate cuts from 2025, when the Fed and many of us were worried about AI taking jobs away, and inflation was getting closer to target. This was before the Iran conflict started. And so the Fed cut rates a couple of times as insurance. It turns out that insurance was not needed or appropriate. And so the Fed is in the process of taking back those cuts. So that's how I would frame it.

At the same time, the Iran conflict continues to cause oil prices to remain elevated. And oil is at about \$100 a barrel. The one-year forward contract, which is important because that gets you past short-term bottlenecks, is at about 85. And that actually is the peak of where it was back in April and May. So really, oil prices have not gone down at all for the past five months or so. And so that's pushing the long yield, the 10-year Treasury yield, up towards 5%, and briefly above it last week.

So there are a lot of headwinds—rising short rates, rising long rates. And it highlights that the Fed has this blunt instrument of the overnight lending rate, which is basically the only rate that it really sets. But we're at a very diverse, very large economy. And you think about it, that rate is not right for everyone.

For a home buyer, that is not a good rate because affordability is already a problem, and mortgage rates are now around 7%. But if you're an AI hyperscaler, and you're building these trillion dollar data centers, you don't really care what the rate is because the rate of return on those data centers right now is so high that it doesn't matter whether they're paying 5% or 8%.

So it highlights that you have one clunky tool for an economy where it's not right for everyone. But having said all that, there's a lot going on. And essentially, what's happening is the market is rotating. It rotated out of AI back in June to the rest of the economy. And now it's rotating back into the Magnificent Seven because they are considered to be a little bit less sensitive to interest rates.

And overall, we have this churn in the market, and it's not the worst thing. The fact that the market is sitting half a percent from its all-time high, even though bond yields are 5%, is actually a pretty remarkable sight. And I'll take that as a win for now.

**HEATHER:** Rotating meaning change in market leadership.

**JURRIEN:** Yes.

**HEATHER:** OK. All right. So from rates and from the stock market to ETFs now, we want to talk about ETFs today because we do spend a lot of time here on *Market Sense* focusing on equities and bonds. And we don't talk as much about ETFs. So before we get into a more intermediate to advanced level discussion of this topic, I wanted to just start with the basics here, Jalen. First of all, most of our audience should be familiar with ETFs. We can make that assumption. But can you talk a little bit about what makes ETFs unique?

**JALEN:** Yeah, totally, Heather. And I agree with you. I think most of the audience might be familiar with ETFs. But to your point, it's always good to go back to basics. And so ETF stands for Exchange-Traded Funds. And you can think of these as mutual funds that trade like a stock. And ETFs are really becoming a vehicle of choice for individual investors. For instance, they now manage over \$13 trillion in assets. And it took them about 30 years to reach those asset levels. For reference, it took mutual funds about seventy years to reach those same asset levels.

**HEATHER:** I think some investors, Jalen, might think of ETFs as only passive investment vehicles that simply tracks index funds. How accurate is that perception? Are people missing out if that's their understanding of what ETFs can offer?

**JALEN:** I think they are, Heather. And it's really because that for most of their history, ETFs were primarily index-tracking vehicles. But actively-managed ETFs are one of the fastest growing segments in this industry. In July, for example, 88% of new ETFs that came on the market were actively-managed ETFs.

But I do think that the term "passive ETF" is a little bit of a misnomer for two key reasons. The first one is, there's still a management team behind a passive ETF. And one of their key responsibilities is making sure that the ETF's holdings tracks the index that the ETF is seeking to track as closely as possible. And trust me, there's nothing passive about that work.

Second is you can still be an active investor with passive ETFs. And what I mean by that is, let's say there's an investor who wants to engage in a sector rotation strategy. They can essentially engage in that with two sector ETFs and two trades.

**HEATHER:** You talked about how you can implement all kinds of strategies, even with passive ETFs. Let's talk about what that might mean for investors and portfolio construction now. What role can ETFs potentially play in a portfolio?

**JALEN:** Yeah, Heather, it's a really excellent question and one we get a lot over here at Fidelity. And I think it boils down to this—diversification, which essentially means not putting all your eggs in one basket. ETFs can be great diversifiers because they can help hedge against high conviction areas of your portfolio.

Let's say, for example, there's an investor who has a portfolio that's heavily weighted towards US stocks. That investor can purchase an international stock ETF to make sure that their portfolio is not tied to one specific geographic region. And we're actually seeing a lot of investors do this right now, where we're seeing a lot of money moving in towards international stock ETFs. And it's really because over the last couple of years, international stocks have outperformed the US stock market. Now, I do have to call out that diversification does not ensure profit and does not guarantee against a loss, though.

**HEATHER:** Anything to add there on how ETFs can help diversify portfolios? You were just talking about market leadership and the market turning a little bit. And for folks who might be concerned that maybe they're a little bit too heavily concentrated on AI, how can they think about ETFs in terms of diversifying their portfolios?

**JURRIEN:** Yeah, I think they are an excellent tool for that reason. It used to be in the old days, you would buy individual securities, and then you could buy mutual funds. ETFs provide a middle ground. Whether they're passive or active, they provide a lot of liquidity, a lot of transparency. You tend to know what you're getting. And they give you a lot of different building blocks. I mean, there's an ETF for just about anything.

And for a market right now that is fairly concentrated in terms of very large companies dominating the index, it's good to have a broad menu, whether it's international ETFs, as Jalen was mentioning, or just within the US, buying a value ETF, or a small cap, or even an equal-weighted S&P, instead of a cap-weighted S&P. And it's nice to have a lot of things on the menu that we can choose from because it gives us more options, and it allows you to really plan for a truly diversified portfolio where, hopefully, it weathers any kind of storm or any kind of change in regime that we might get.

**HEATHER:** So it's like going to a restaurant where there's only a couple items on the menu, and say you're gluten-free, or you have some sort of dietary restriction. That really limits you, right? And that might limit you based on your own personal circumstances, too. So it's nice to have options. Jalen, I mentioned earlier that this is the time of year when we need to start thinking about taxes already, and ETFs can be particularly helpful in taxable accounts. Can you walk us through how they can be used in that way?

**JALEN:** Totally, Heather. And yes, everyone's favorite topic—taxes. No, in all seriousness, though, the ETFs, their tax efficiency is one of the key reasons why investors have really been gravitating towards these products. And what I mean by tax efficiency is that ETFs relative to mutual funds are less likely to distribute capital gains, or the profit that the portfolio earns from selling securities and realizing those gains. And it's really because of the mechanism called the creation redemption process. And we do not have enough time today to go into that topic, but Heather, if you have me back, happy to do a deep dive into that. But—

**HEATHER:** Obviously. Yeah, yeah.

**JALEN:** —let's talk about one of the benefits here of that process, which is that, as you can see, we're going to have a slide coming up here that last year, over 75% of all actively managed stock mutual funds distributed a capital gain, while less than 10% of all actively managed stock ETFs did so. And this is huge for investors in taxable brokerage accounts because it enables you to keep more of what you earn and keep your money invested for the long-term.

**HEATHER:** Jalen, one thing that we talk about a lot here on *Market Sense* is tax loss harvesting, and I know that is something that ETFs can help with as well. Can you talk about how that strategy can potentially be implemented?

**JALEN:** Totally, Heather. And it's definitely timely. This time of year, people are looking at their portfolios, realizing where they've taken some gains and where they might have some losses. But just let's make sure and level-set with the audience what we're referencing with tax loss harvesting. So tax loss harvesting refers to the process of selling a security you own at a loss for tax purposes.

Now, you might be asking, Jalen, why do that? Well, because there's certain benefits to that. First one is that you can offset gains elsewhere in your portfolio and can use that loss to offset ordinary income, such as the wages and salary you earn from your job. And ETFs can really be useful tools for investors engaging in this strategy, because it enables you to still maintain that exposure to a particular market theme or segment.

So let's say, for example, there's an investor who owns an AI stock that is struggling. And so that stock has declined in value since the investor has purchased that AI stock. They can sell that security at a loss and immediately reinvest their proceeds into an AI ETF. And by doing so, that investor would have achieved three key things. First one is, they would have locked in that tax benefit. Second one is, they would achieve greater diversification. And third, most importantly, they would remain invested.

Now, there are rules around this. And I have to call out the Wash rule from the IRS, which will disallow the loss if you purchase the same or substantially identical security within the 30 days prior to or after the sale of that original security. And so that's why I always think it's a

good idea to speak with a tax professional to make sure you're engaging in tax loss harvesting appropriately. But the key takeaway here is that ETFs can be a really useful tool for investors engaging in this strategy.

**HEATHER:** All right, a very useful tool when you're thinking about your taxes. Let's shift gears now and talk about some of the latest themes that we're seeing right now in the ETF industry, Jalen. And this is where, I think, this is super exciting stuff. And I know this is stuff that you really love to talk about, too. Talk about what's trending right now with the types of ETFs that we see investors buying at this moment right now.

**JALEN:** Totally, Heather. Yes, this is something I'm talking to my wife about every night, even though she might not want to hear it. But it's been such an exciting—

**HEATHER:** No, it's something you're passionate about. I can feel it. Yeah.

**JALEN:** ETFs are great. Like we were mentioning, there's just so many different options, and you can tailor your goals to what you're trying to achieve with ETFs. You can get really precise with your exposures. But yes, let's talk about these trends, because 2026 has been such an exciting year for ETFs. There's already been \$1 trillion, with a T, that have moved into ETFs this year. And as you all know, the year is not over yet. So let's talk about some trends.

So the first one is international stock ETFs. So I mentioned this a little bit earlier. And it's not just because of the outperformance of international stocks that we're seeing money moving to these products. It's also because some international markets are not as overweight to the AI trade. So they provide a little bit more diversification.

Now, international is a broad term, so it includes a bunch of countries, a bunch of different political regimes, a bunch of different types of currencies. And so active management can really add value here. And so an example of an actively-managed international stock ETF is FENI. It's at the top of the slide here. We like to call it here at Fidelity FENI, which is the Fidelity Enhanced International ETF.

Second one here I want to talk about is large cap equity exposures. So large cap equities are large cap stocks. These are the household names. These are blue chip stocks whose goods and services and products that we use on an everyday basis. And I'm sure you all can think of some of those companies in your own lives. And so there are actively-managed and index-tracking versions of these products. But an example of an actively-managed version is FELC, which is the Fidelity Enhanced Large Cap Core ETF.

And last but not least, have to talk about options-based income ETFs. And so these ETFs use options to generate enhanced levels of income for individual investors. And so these ETFs come in index-tracking and actively-managed formats. But just given the volatility that we were talking

about at the top of the hour here around interest rates and also inflation, a lot of investors are really gravitating towards actively-managed versions of these products to uncover new income opportunities.

And so an example of an ETF in this category is FYEE, the Fidelity Yield Enhanced Equity ETF. Now, I do want to call out all the ETFs that I've mentioned and on this slide are just examples, and they should not be construed as recommendations. It's always a good idea to speak with a financial professional who understands your unique financial goals, your objectives, and your risk tolerance before making any kind of investment decisions.

**HEATHER:** Great job with that, Jalen. So international, large cap, options-based is what you see trending right now. Jurrien, I wanted to bring you in here because one thing that I do find fascinating about ETF launches is that they can often tell us a little bit, perhaps, about the market's collective mindset, where the market is right now, what it's vibing, so to speak, as the young kids say these days.

So it seemed like every ETF a few years ago was somehow tied to the Mag Seven or AI or leveraged exposure to a handful of mega-cap stocks. And perhaps it illustrates how ETF issuance can be a window into investor psychology. Would you agree with that statement? And is that, back to what you were saying, about the menu of options for all of us?

**JURRIEN:** Absolutely. And it really isn't unique to ETFs because back in the old days, a few decades ago, there would be sector funds. And inevitably, they would be launched after a sector—let's say, gold or biotech—had a big boom. And it's understandable that financial services providers want to serve the need of investors, but also capitalize on the trend.

And the ETF market moves much faster. It seems that ETFs get approved left and right. And of course, we're in the AI boom. And earlier this year, the semiconductor started taking off. And lo and behold, we got a bunch of semiconductor ETFs not only here, but in Korea especially as well. And they get pretty exotic single-name ETFs, which is like buying an individual stock, or double or triple-levered single-name ETFs.

And I wouldn't say those are recommended for everyone because they're going to be very volatile. But there is an ETF for any theme you can slice or dice, whether it's semiconductors or anything else. And sometimes the menu—not to bring that metaphor back—sometimes the menu can be too big, that it's like, oh, my god, I'm being overwhelmed with options here. So it is good to understand exactly what you're trying to solve for and which ETF does or does not fulfill that need. But yes, it's an interesting look into the zeitgeist of the market that whatever is hot, you can count that there will be an ETF for it.

**HEATHER:** Just to that point, you teed me up perfectly for my last question to Jalen, Jurrien, because sometimes so many options can be really overwhelming, as you mentioned, Jurrien. And we should mention there are now more ETFs than stocks. So there are just so many options out there. Jalen, what kinds of questions would you suggest investors ask themselves when evaluating ETFs and trying to figure out which ones to consider?

**JALEN:** Yeah, totally. You're both so right. There's been so much innovation in ETF industry, to the point that there have been 800 new ETFs that have come on the market this year. Last year, for reference, there were 1,100. So we're on pace to surpass that this year. And you're totally right. When there's too many options, it becomes overwhelming.

And so I do think that there is a couple of things investors want to keep in mind when they are evaluating ETFs for their own financial goals and objectives. And first is—Jurrien mentioned it—start with what are you trying to achieve? Is this a short-term, medium-term, long-term goal? And this is because there are certain ETFs that are geared towards certain goals or better suited towards certain goals over others.

The second one is, you want to look at the ETFs holdings. So Jurrien actually mentioned this a little bit earlier, too. ETFs are really valuable because they're transparent generally, which is to say that you can look at the holdings of an ETF on a daily basis. And so this is another good way to gut check to make sure that what the ETF is invested in is aligned with your risk tolerance and your objectives.

Third, you also want to look at the ETF provider. And a question you might want to ask yourself is, does this ETF provider specialize in the types of ETFs that I'm considering? So for example, here at Fidelity, we have a long heritage of active management. And we have a full suite of actively-managed ETFs that can help investors pursue a variety of different outcomes.

And then last but not least, you want to think about the total cost of ownership. Owning an ETF is a little bit like owning a home. And what I mean by that is the cost of owning an ETF goes beyond the expense ratio in a similar vein to how owning a home goes beyond the cost of the mortgage payment. You have utilities. You have taxes. You have insurance. You have all these ancillary costs.

And there are also other ancillary costs with ETFs, too. And one that investors may want to consider outside of the expense ratio is also the ETF spread, which is the difference between an ETF's bid and ask price. And so generally, you want those numbers to be as close as possible together, like penny wise spreads, because the wider they are, the more costly it is to get into and out of the positions in that ETF.

**HEATHER:** Excellent place to end our ETF discussion, Jalen. I think you really covered a lot of ground today. Jurrien, we'd like to give you the final word before we go. From ETF markets to macro, what are you going to be watching this week, or what have you already been watching this week? What's on your mind?

**JURRIEN:** Well, we have about four weeks before earnings season. So it's pretty quiet on that front. So I'm watching that 10-year—it's just a hair under 5%—and oil prices, which are just a hair under \$100. But it's basically all one trade because oil drives the stock market. Bond market drives the stock market. So we know earnings are booming, but investors are not paying up for them, because there are some pressures on interest rates. And the market just continues to churn while those things settle down.

**HEATHER:** Right. Well, we appreciate you keeping tabs on it for us. And great job, Jalen. Your first time here on *Market Sense*, and you certainly left us with plenty to think about and potentially research. Thank you so much.

And to help with our audience's research, we do like to leave you with a resource at the end of the show. Jalen just gave you a lot of ideas here. And our mobile app and website have plenty of ETF resources for you to further that research. We've got the ETF section of our website listed on your screen. But if you're watching, I'll read it to you, too. If you're a podcast listener it's [Fidelity.com/InvestingInETFs](https://Fidelity.com/InvestingInETFs).

On behalf of Jurrien and Jalen, I'm Heather Hegedus. Thanks so much for the pleasure of your time. We will see you back here next Tuesday at 2:00 Eastern, when we're going to be talking about investing with a portfolio manager from Fidelity's Contrafund. So we hope you'll tune in for that. Take care, everybody.

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