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TRANSCRIPT

SPEAKERS:

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HEATHER HEGEDUS: Hey, everybody, thank you so much for making the time to join us today for another episode of *Market Sense*. I'm Heather Hegedus with Fidelity. Hard to believe that we are wrapping up 2025 and wrapping up another profitable year for the markets. We have seen a little bit of volatility in the past few weeks, but as we look back at 2025, the S&P has returned almost 18% year to date at last check.

And of course, those gains follow a remarkable recovery when you think back to last spring. It seems like a long time ago already, but think back to them, when concerns over tariffs led to an almost 20% market sell off.

So we're going to talk about all of the takeaways here today. We're going to talk about the highs and the lows and some of the things that we have seen this year that we rarely see in the markets. And we are thrilled today to be joined one on one by Fidelity's Director of Global Macro, Jurrien Timmer. Jurrien, this is such a treat today to have time just carved out with you.

I'm just looking forward to picking your brain on things. I know people tune in to get your take on things. And you're making the time for us today from across the pond. So thank you so much all year round for making time for *Market Sense* no matter where in the world you are.

JURRIEN TIMMER: Yes, I'm in London on the final day of a two-week European trip, so I'm a little disheveled, so apologies for that. But one carry on for two weeks will do that. But actually, the last year we did this one-on-one show I was in Aruba, my home island. So we'll see where the show next year will be, maybe in Thailand or something. And we'll see.

HEATHER: That would be fun. And it'd be great if we could take the show on the road to Thailand. But you don't look disheveled, Jurrien. And in fact, disheveled Jurrien is a put-together rest of us, I would say. But thank you. Welcome, Jurrien. And it's Tuesday, December 2.

As I mentioned at the top of the show, Jurrien, we just came off a couple of weeks of volatility, which is unusual for this time of year because historically, December is one of the strongest months for the stock market. And that's one reason I wanted to talk to you today about, as we look back on 2025, how this year has been unusual in so many ways.

So first of all, let's just start off with a where are we at question like we often like to start off the show. So where do things stand right now with stocks?

JURRIEN: Yeah, so it has been an unusual year. I like to think of it as a year where we've all been a little bit on edge, never knowing what's going to happen next, whether there's another shoe that's going to drop or when it will drop if there is one. Generally, if you look at a bell-shaped distribution of outcomes, by definition, mathematically, you're somewhere in the middle because the outliers, the tails, are ones that don't happen often, but when they do, they have a large impact.

And it seems like this year, we've been going from one tail to the other, never quite knowing what's going to happen next. So we started very positive. And then we had the tariff tantrum, as I call it, a 21% decline. That was pretty swift, but also recovered from very quickly. And then we had the one big, beautiful bill.

And then we had the seasonal period where generally, the market can be a little weaker, so July to early October. But the market just went up. And now we're in early December. And the seasonals have been in reverse.

The last few weeks we've seen a correction—not a big one. The S&P went down 5%. And we're pretty close to the highs now. But that was definitely a little bit of a shakeout of the more speculative corners of the market. Let's put it that way.

But here we are. We wrapped up a very strong earnings quarter. The Fed is back in play because that's in a week or two. And all in all it's been an eventful year for sure, but one that so far at least, without the year being fully complete, is ending on a high note, at least as of December 2.

HEATHER: And also a seasonal reversal in that over the summer, when it can be slower, we saw a much stronger market than we might have expected, right?

JURRIEN: Yes. Correct.

HEATHER: So as these unusual events were unfolding this year, many times here on *Market Sense,* I heard you say, that's so 2025. So I'd love to dig a little bit deeper on that to find out what you mean by that today, and talk about some of these unusual dynamics in the markets.

So we grouped all of the questions that our audience has sent in about this year by theme. We put it on a board. If you're listening to us as a podcast, I'm just going to read those questions off to you quickly. We're going to try to cover these topics all in 20 minutes, AI, Bitcoin, bonds, the dollar, gold, the Fed, tariffs, the markets, international. So 20 minutes—you've got to stick to it, Jurrien. I'm holding you to it.

First, let's stay on the topic of the stock market for a minute, though, Jurrien. You just gave us the almost 12-month overview of what happened month by month. What is your take on why or how the market has been so resilient? As you put it, sometimes we were holding our breath, waiting to see if the other shoe might drop. There was a lot of uncertainty. How has this market kept going?

JURRIEN: So again, a lot of crosscurrents. And this is why the market has felt, or the year has felt a little bit on edge. So we have tariffs. And right now, the worst case scenario of the tariff tantrum has been put on the back burner. So we're at an effective tariff rate—I think it's 12%, which is not 0%, but it's not 40%. So the markets are comfortable that that's manageable, assuming it stays that way.

And then we had the one big, beautiful bill, of course, that came right on the heels with this rapid depreciation of capital spending. And that's obviously very positive for corporates because they can spend money on new plant and equipment and then depreciate it fairly quickly. And that has unleashed a CapEx boom, as we call it. And that has led to higher earnings, so very good earnings momentum.

And at the same time, the Fed has cut rates a few times. And the bond market is fairly quiet, very quiet actually. So when you think about all these crosscurrents, earnings, the growth of earnings, the level of interest rates, the direction of short rates, and a capital spending cycle that's pretty robust, it all adds up to a pretty resilient market, which is what we've seen so far this year.

HEATHER: All right, crosscurrents, let's take a look at the board again. It's hard to talk about the market these days without talking about AI. You mentioned CapEx, Jurrien. How much has the AI trade played a role in these dynamic returns that we saw this year? And how much of a risk could that be?

JURRIEN: They've played a very large role. The AI boom is the biggest thing we've experienced in some time. And again, it makes people think back to the internet boom, which eventually went to a bubble. And that's certainly a large part of the conversation. And actually, I was at speaking at an event this morning, and we did a live poll of the audience. And I got to ask the question, is AI a boom or is it a bubble? And the response was 50/50. So that tells you how difficult it is to pinpoint this.

But clearly, AI is a big thing. The Mag Seven plus a few other companies—so it's more like 10 companies—are obviously betting everything on this winner-take-all type of gold rush. And a lot of money is being spent. And it's not clear if the rate of return on those investments will live up to expectations, which is not to say that the AI boom doesn't deliver productivity gains for you and me and for others and companies left and right.

But the risk is that there's too much spending and that it won't deliver a return. And that's where the skeptics of the AI boom are like, OK, this could be the best thing ever, but will these companies actually deliver on that?

And the reason why that's potentially a risk is that the market is very concentrated. These top 7 or top 10 stocks are over 40% of the market. And that's produced very strong tailwinds because in a capitalization weighted index, if you're a passive or even an active investor, if 40% of the stocks is only in the hands of a few companies and they go up, it brings the market up. It brings the cap weighted earnings up. But that could eventually also go in the other direction.

That's not a prediction of any kind. But if those stocks ever decide to go down, even if 90% of the stocks in the S&P go up, the S&P itself probably would go down. And that's the concentration risk that we want to think about in terms of having a diversified portfolio.

HEATHER: Well, interesting, that real-time focus group you had there, 50% of the audience saying a bubble, 50% saying boom. All right, let's see that board again. We can't talk about 2025 without mentioning tariffs. You mentioned at the top of the show, Jurrien, that that was one of the crosscurrents.

I know we frequently say, here on *Market Sense,* short-term policies are less important for investors to keep an eye on when it comes to the markets than you might think. But this year, that uncertainty surrounding the tariffs definitely was hard to ignore, especially in the spring. A lot still up in the air, of course. I know you're going to probably talk about that. The Supreme Court still hasn't issued a decision yet on the president's authority to use emergency powers to unilaterally implement tariffs. But how much of a market disrupter have tariffs been this year, Jurrien? And have you been surprised by it?

JURRIEN: They were very much a disrupter, even though it was short lived. But the S&P fell 21% almost entirely because of the tariff tantrum, coming in after the April 2 so-called liberation day. And I think the markets were whistling past the graveyard, if you will, thinking, well, this is just art of the deal. It's a means to an end. And then things got serious and the market had to reprice. And earnings estimates had to reprice lower.

The earnings estimates for the growth rate for 2025, coming into the year, were 12 and 1/2%. By April, May, they were cut to 7%, which is still growth. But that's a meaningful haircut, if you will.

And then the worst case scenario of the tariffs were walked back. And like I said earlier, we're looking at 12% effective tariffs. We'll see if the Supreme Court rules against what's called IEEPA, which is the emergency powers that the administration has used.

But at this point, the market has moved on. And the big, beautiful bill and the AI boom have replaced the tariff concerns, at least for now, while at the same time, the bond market has been very quiet. Yields are at 4.1%. We talked 6, 9 months ago, often about what happens if we go to 5%. And so that's on the back burner. And as a result, that earnings growth expectation is now back up to about 12%.

So we're ending the year where we're starting it. But in the middle, there was this big dip. And it's a good reminder that the markets are always pricing in outcomes, is always in price discovery.

And by April, May, the markets had priced in a worse outcome than ended up happening so far. And so it had to reprice. And that's just the way the markets work.

And usually it's very gradual and slow. But sometimes, 2025, it can be very abrupt and even somewhat violent. And for investors it's a good reminder to stay balanced, stay diversify, don't panic when things don't go in your favor, and use those as opportunities to rebalance.

HEATHER: Well, interesting that you're saying, looks like we probably are going to come full circle though, from where we started 2025, so interesting. What a year it's been. Let's look at that big board again, still a lot of goodies. We've got a lot of good topics on there.

Do you want to tackle international next, Jurrien? Because 2025 is also the year that international stocks became so hot again. For the first time in a long time, international stocks outperform US stocks. What was the force behind that happening? And do you see this global broadening continuing, Jurrien?

JURRIEN: I do. And it's been good to see because for investors, we want to fish from the largest possible pond. We don't want to have to choose seven stocks and nothing else because that's a very concentrated portfolio. And maybe for some people, that's fine. But for most of us, I think we would rather have a broader basket of stocks to pick from. And for many, many years, it really was just the US, US exceptionalism, as we call it. And this year, finally, other markets woke up. And their fundamentals are supporting that.

And right now, as of just a few days ago, non-US markets are outperforming the US by 11 percentage points, which is the highest since 2007. That's a long, long time ago. And what we're seeing is that companies overseas are getting smarter about unlocking shareholder value. That's been a thing that US companies have done for a long time. But companies in Europe and Japan have been not so interested in that. And they're getting smarter about that.

So they are cleaning up their balance sheets. They're buying back shares. And as a result, the fundamentals have greatly improved even though the valuations are much lower. So it really is a much broader based bull market now. And that's a good thing. We want to see that.

HEATHER: All right, well, that was a good stat about 2007. Here's another good stat to chew on when it comes to the dollar. The first six months of 2025 were the worst for the US dollar in more than 50 years. So let's talk about the dollar. Let's dig a little deeper here, Jurrien. Some economists are questioning whether the dollar will remain the world's reserve currency at this point. I'd love for you to talk about how you think about the dollar, and whether investors should be paying attention to this, or if this is something that investors can just keep on the back burner and keep moving forward with their plan.

JURRIEN: I think for the typical American or US-based investor—let's put it that way—if your liabilities are in dollars, whether the dollar goes up or down 10% is not really that important unless you're planning a vacation to Europe or something like that. But for the most part, you don't really feel it.

It has, obviously, impacts on some prices if you're importing things from abroad. It has some impact on corporate earnings. But I think if you're in Europe or Japan or elsewhere, what happens to the dollar is more important than if you're inside the US.

Having said that—and we just talked about international markets—it does matter if you are investing globally because that currency translation of a weaker dollar, if that continues—and like you said, it certainly started out that way this year—can add to the returns if you are investing overseas. And certainly, it has played a factor for international markets, not the only factor by any means.

But what's happening with the dollar is that investors are questioning whether the current political winds are really still favorable for the US being that supreme currency and superpower. It is a superpower, of course, but maybe with the fiscal spending happening in the US and some of these trade-oriented policies, maybe the dollar becomes slightly less exceptional. And that is what we saw earlier this year when the tariff tantrum happened. And the dollar, which usually is the safest haven of all, actually went down.

It's been very quiet since then. It's been meandering around a sideways range. But that is a risk, going forward—could be an opportunity as well as a risk. But it's definitely something that the US isn't used to seeing because for many, many years, the dollar has been very, very strong. It's still the dominant reserve currency, by the way. It's about 57% of global reserves, but that's down from about 75% a few decades ago.

HEATHER: OK, and really important to note that. Thank you. And let's talk about the Fed policy. We're just about halfway through these questions. So we've got to move along here.

JURRIEN: You've got to speed it up.

HEATHER: Yeah, exactly, to politely say. So just a reminder to everybody, the Fed made two 25 basis point cuts this year. We're going to see what happens next week. We're going to be talking about that with you next week, Jurrien.

But let's talk about what the Fed is up against in 2025 or has been up against. How unusual is it for the Fed's dual mandate, of course, maximum employment and price stability, to be in conflict with one another like we have seen this year? And how has that all played out?

JURRIEN: Yeah, so for several decades, the Fed hadn't really needed to choose. Either the inflation was an issue in either direction or the employment side. This time, the jobs market, it's not contracting but it's soft. And inflation, even though it's been very stable—the inflation rate has been stable—it is still above the Fed's target. And so the Fed, I think, is just in tweaking mode. It's tweaking. It's at 3 and 7/8, which the Fed believes is on the high side of a neutral policy.

And I think they're just taking out a few insurance cuts to make sure that whatever the softness is in the jobs market doesn't turn into a contraction. And I think that's really all the Fed is trying to do right now. They want to be in neutral, which is probably 3% to 4%.

And I think expectations for December are now that they're going to cut again. So they'll be in 3 and 5/8. And it's neither here nor there. I think the more interesting parts are about the politics and who's going to replace Jay Powell. But we'll talk about that next week.

HEATHER: Yeah, all right. Well, we'll skip that then. We'll save that for next week. We'll put a pin in it, and we'll talk about the so-called gold rush of 2025 then, Jurrien. How about that? Because we had record stock prices. But then at the same time, demand for gold was up this year, which is something that normally does not happen in unison at the same time. It's called decoupling. Why do we see that?

JURRIEN: Yeah, no, it's very interesting because gold is one of the ultimate uncorrelated assets. It is neither correlated to stocks nor to bonds. So to see the stock market up 18% as you said, and gold up some 50% is fairly rare, especially at a time when the bond market is quiet, the stock market is healthy. And so what's going on is related to what you asked about the dollar, is that foreign central banks, especially China, are accumulating gold almost like an insurance policy against the dollar losing some of that reserve status.

And also, it's been trending higher. And that attracts capital. People like to play the trend. And so gold is up there. The gold miners are one of the strongest groups. Strange bedfellows, they're up there with European banks and nuclear stocks. Who would have thought about this? And now silver is on the move, running very, very strong, so a very interesting year, for sure.

HEATHER: Yes, it has been, in keeping with our theme here in 2025, an unusual year. And lastly, just like with gold, Jurrien, investors did rush to buy Bitcoin this year as well, immediately following the new Trump administration taking office because of promises to deregulate the crypto industry. In recent weeks we have seen some volatility in this space, but I was wondering if you can talk about how you're thinking about Bitcoin, specifically these days. JURRIEN TIMMER: Yeah, so if you look at the leaderboard, gold is at the very top. And Bitcoin this year is at the very bottom. And Bitcoin is volatile. We need to always remember that. It was at $125,000 in October. It dipped to $80,000 a few days ago. It's above that now. And there's some deleveraging going on, some of this financial engineering, as I like to call it, of these Treasury operations that sell shares to buy Bitcoin.

And that goes great until Bitcoin starts to lose value. And then all of a sudden, that whole concept is upside down. And so we're seeing some of those liquidations happening right now. But again, that's part of the deal when you buy Bitcoin.

HEATHER: All right, before we end the show, Jurrien, we always like to end the show with a Timmer's take, which is what you're watching. Of course, this has been a whole 20 minute Timmer's take. So we could just skip that portion. But I did want to ask you about some questions that I get asked at Fidelity about you. And I'm assuming when you're on the road like you are right now, you're asked these questions, too. And I'm not just talking about stocks, bonds, and alts.

I'm talking about—people always ask about your fashion sense because you're known for that. They also ask about your love of food because you're known to be a foodie and an expert chef, and then, of course, travel, because the show is often a where in the world is Jurrien in every week because you're constantly on the move. So in true lightning-round fashion, I just wanted to quickly ask you two questions. You ready?

JURRIEN: Yes.

HEATHER: All right, first question, favorite dish you made this year.

JURRIEN: The one you just saw, actually. That's my current go-to dish for cooking for larger groups. It's a sweet potato puree, crispy kale, and then Chilean sea bass in a sake miso sauce.

HEATHER: I have a hard time following you on LinkedIn when I'm hungry. That sounds delicious. Second question, favorite place you traveled this year, Jurrien.

JURRIEN: I travel all the time and all over the place. And I have to say, it is a lame answer, but my favorite place to travel is home at the end of those trips.

HEATHER: I had a feeling you would say that. Home is where the heart is, Jurrien. Well, are part of our family here at *Market Sense.* So thank you so much for lending us your wisdom, your expertise, your historical knowledge this year. We've had a lot of fun as well. And today was part of that fun. So thanks to everybody out there, too, part of our *Market Sense* family, our community, our audience for watching and listening all year long and sending us your questions if you registered to watch us live on Fidelity.com.

Speaking of taking questions, quick plug here. Jurrien, thank you so much for agreeing next week, as soon as the show is over, you're going to be taking questions on Reddit as part of an Ask Me Anything on Fidelity's subreddit. So you can just go on to Reddit as soon as the show ends next Tuesday and submit your questions to Jurrien there.

By the way, I mentioned Jurrien is also on LinkedIn. I am, too. We're pretty active on there. So if you'd like to see some of the dishes he's creating or the charts that he's creating, he's one of the best people to follow on LinkedIn. And that's not just my opinion. We've had news outlets saying that as well about you, Jurrien. You're one of the best people to follow.

So on behalf of Jurrien Timmer, I'm Heather Hegedus. I hope to see you back here next week. And remember, you can watch us live Tuesdays at 2:00 Eastern. Take care, everybody.

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