Fidelity Viewpoints®: Market Sense

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TRANSCRIPT

SPEAKERS:

Heather Hegedus Jurrien Timmer Jake Weinstein

HEATHER HEGEDUS: Hello there, 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. As investors continue to watch the latest developments in the Middle East, the market is pricing in day by day developments in real time right now.

So that market volatility that we are seeing is tied to a couple of things, primarily to continued uncertainty of how long the conflict in Iran will last, and also how profound disruptions to the energy market will be. And that might have some investors wondering if these are red flags for a market correction or, perhaps, even a recession. So joining us today to talk about what is happening right now and what it might mean for investors, we are delighted to be joined, as we often are, by Fidelity's Director of Global Macro, Jurrien Timmer.

We're also welcoming back a familiar face to the show, Jake Weinstein. He's going to be going in depth with us today on the US economic outlook. So Jake's a Senior Vice President at Fidelity's Asset Allocation Research team. And their research helps to inform Fidelity's portfolio managers and investment teams here on a day-to-day basis. Thanks to both of you for joining us and Jurrien for calling in from overseas.

JAKE WEINSTEIN: Thanks, Heather. Happy to be here.

JURRIEN TIMMER: Yes. Good evening from The Hague. And I'm sorry I look like such a day trading nerd. I'm sitting here in a rented conference room at the Marriott Hotel doing this show, because the Wi-Fi in my hotel room was not strong enough. So, anyway, we'll have to deal with this.

HEATHER: Playing the part of a day trader, but hopefully that Wi-Fi hangs in there. And we appreciate you making the time when it is night time over there, Jurrien. Today, back here in the United States, it's Tuesday, March 24. And the conflict in Iran has now entered its fourth week.

So, gentlemen, we've been starting to see a broad sell-off now spread across most major asset classes, right? We did get some headlines yesterday, though, that could suggest a de-escalation with Iran is on the horizon. And we saw some market euphoria because of that. I know you've been watching all this closely, Jurrien, and I'll start with you—can you talk about what's going on here and what the markets are pricing in?

JURRIEN: Yeah, there are so many dimensions right now. And to use a phrase that I've used many, many times in the past is that the markets are always in a mode of price discovery. And sometimes there's not a lot of price to discover and things are quiet and smooth. And sometimes there's a lot of stuff to discover and the market is constantly adjusting to those new variables.

And that, of course, is what's been happening for the last few weeks. The S&P at the low was down about 8%, foreign markets about 10%. And that actually isn't really that much considering what's going on in the Middle East.

And I think part of that is due to the fact that earnings are growing very strongly both in the US and overseas. And so the modest price decline masks a much greater decline in valuations. The PE ratio for the S&P 500 is down about 20%.

So we're fortunate, in that sense, that the fundamentals prevailing before these headlines happened were very, very strong. And that allows the market to actually correct more than we can see and feel as investors. But there's still a lot of dimensions. Obviously, the dollar is up. Oil prices, of course, are up.

But one thing that Jake and I have learned throughout the years, and all investors probably have learned, is that it's always interesting to see, when these events happen, what are the things that are happening in the markets that make sense and that you would expect? And what are the things that are not happening that you would expect or are happening that you wouldn't expect? And so one of the interesting signals here is that, yes, so oil's up. Makes sense. Dollar's up. Makes sense. Stocks are down.

But interest rates, bond yields, are up quite a bit. Gold is down quite a bit. It's not the first thing that would leap to your mind saying, OK, geopolitical unrest, why is gold going down? And so those are the tea leaves that Jake, and I, and our colleagues are reading to see, what new narratives are being built in the market? And it's a fast moving train. It's still unfolding. But that's how we're tackling this.

HEATHER: All right. And we're going to dive into some of those asset classes that you mentioned and their market reaction in a minute, Jurrien. So hang tight. But I want to bring Jake in now. Jake, the concern here is if this conflict does continue, it could cause stagflation, which is exactly what it sounds like, a stagnant economy and higher inflation for longer. And it could impact the economic outlook.

So I think this is a question that a lot of people tuned into this show for today. How much, in your mind and your team's mind, has recession risk risen in the past couple of weeks? And where does your team think we are right now in the business cycle?

JAKE: Yeah. No, that question is forefront, number one, what I'm hearing. Are we heading into a recession? And are recession risks increased? And I would say that's, obviously, a lot where our research time is spending.

I would say, obviously, there's a higher probability now compared to several weeks ago that we're heading into a recession. But the question is how much, and how elevated is it? And we use a business cycle framework to come up with that.

And we have a very disciplined way in terms of how we think about modeling our business cycle. And we still see, as you look at the diagram here, that the US and other major economies are in expansion—but the US, particularly, we see in a mid-cycle expansion.

So that's defined as growth being kind of moderate, not decelerating, policy being accommodative, which the Federal Reserve has been. You've had accommodative fiscal policy, credit is flowing. So all those things are still supporting a US economy in expansion. Now, what has changed over the last several weeks—oil has gone higher, but has it gone high enough? Or have interest rates risen, have they gone high enough to throw the US economy off of its expansionary path?

And the US economy is very well diversified. It's got a lot of different types of sectors in it. And, frankly, right now, we just don't think that the current events that are occurring have increased recession probability or odds enough to be completely concerned about. Are there risks? Yes. But, overall, the economy seems to be, right now, in a pretty good spot.

HEATHER: Jake, coming into the year, there was a lot of excitement, if you think back to early January, a lot of excitement about things like AI related growth and the stimulus checks from the one Big Beautiful Bill Act and the impact that might have on businesses. How has the conflict in Iran erased some of those tailwinds? Or has it yet? Have we not seen that happen yet?

JAKE: Yeah. No, obviously. So there was so much optimism. And markets are forward looking. And that excitement for the one Big Beautiful Bill Act stimulus, even though the economic impact was expected through tax rebates in the first quarter of '26, most of the equity market outperformance and the excitement actually took place in the fourth quarter of last year. And so, as you enter the year, equity markets already priced that in. And so when you get some sort of bad news, it's obviously going to be bad for risk markets. And equity markets gave back some of what they had gained over the course of 2025. But not all of it.

Equities aren't off all that much over the course of the last 12 to, say, 18 months. But you put that all together, is the US economy still in a good shape because of that stimulus? Yes. Consumers are going to be, certainly, hit at the pump. Oil prices going up is going to continue to put some pressure on gas prices.

But the good news is that at least there's going to be, hopefully, a buffer to some of that as some of these tax rebate checks start to come in in the first quarter. So, yeah some of the optimism, obviously, has been deflated. But it hasn't completely all gone away.

HEATHER: OK. That's encouraging. What about the supply chain issue, though, that we keep hearing about caused by what's happening in the Middle East right now and the essential shutdown of the Strait of Hormuz? Has that been enough to at least temporarily derail the global economy?

JAKE: Yeah. This is, obviously, another big question we're getting asked about the Strait of Hormuz. And I can tell you, I have read so many different articles and seen so many different opinions based on this. And your head could start spinning trying to figure out how long the Strait has to close, what's going to happen to oil prices, what happens to natural gas, who's more exposed to it.

A couple of things to think about this is I would say the supply chain issue, if the Strait remains closed for a significant amount of time, will ultimately have a larger impact. It may take months. It may take weeks. It is very difficult to predict that with precision.

But what we have been trying to look at is what different, say, industries or economies are going to be more exposed. For example, Europe gets a lot of its natural gas from the Strait of Hormuz from Qatar, or Japan gets a lot of its oil from the Middle East in general. So you're looking at those kind of ratios and looking at those dependencies. It makes sense.

And there's other things that maybe people don't think about, where plastics that utilize inputs from petroleum, those are going to have a higher cost to materials, could increase packaged goods, input costs to consumption companies for consumer goods companies. So there's a lot of different things, like energy costs, ultimately, on AI and building chips in Asia—so lots of things that, ultimately, are so uncertain.

And that's why this is a very important thing that is ultimately going to have more problems if the Strait is closed for a long time. But to put it in perspective, the market actually is expecting a fairly quick resolution. It may be right. It may be wrong. But that's why you haven't gotten nearly as much of a complete negative shock in terms of a situation where something as important as a Strait of Hormuz closing for a long time, you may think, ultimately, it will have.

So we'll see. We don't want to predict this with precision. But it is an important thing to continue to monitor.

HEATHER: And let's also talk about international equities, because that's one area where US investors have been expanding their exposure. And we did start to see a shift take hold last year where global stocks started to outpace US markets. They continued to do so throughout the first couple of months of 2026.

But then, when Iran happened, that introduced some new uncertainty, Jake. And international stocks are down more than US stocks now. Do you think their leadership will resume if this does de-escalate quickly? And does this change potential diversification strategies for folks using international stocks as a diversifier?

JAKE: Yeah. So we've came into the year, one of our top five takeaways for the outlook for 2026 was that non-US markets, we think, would continue to outperform the US based on valuation gap differences in the currency, and also in price to earnings ratios, as well as some other improving fundamentals that you're seeing out of Europe, say, through the German fiscal spend, as it's trying to spend more on its energy infrastructure and its defense, as well as other things, say, happening in Asia like Japan and Korea, where you're having some more shareholder friendly type of activity from those countries.

Those are still there. That still exists. What could change, ultimately, even if we get a resolution soon, is if oil prices remain at these levels. And if they are 20% higher than they were, say, three months ago, is that going to ultimately have a different impact?

And on countries like Europe, maybe not. If you look at just the, actually, increase in natural gas prices in Europe now, it's just a smidge compared to if you look at 2022 when natural gas prices went just ballistically higher following the Russia Ukraine war. So there's a lot of things, obviously, we have to monitor. But I still think from a non-US perspective, just think about it in this perspective, is that the globe is more of a higher risk place. There's more geopolitical risk. There's more uncertainties.

And in that type of environment, diversification tends to work better in different countries, because we're coming off a 30-year period where we were just very globalized and diversification did not help. So it kind of sounds strange where you have more risk globally. And that's better to have more exposure globally.

But from a diversification and correlation standpoint, from a portfolio construction and markets lens, it actually makes sense to continue to have non-US assets as diversifiers to a portfolio.

HEATHER: A little bit counterintuitive, but makes pretty good sense. Anything to add to that, Jurrien?

JURRIEN: Yeah. No, I totally agree with Jake. And remember, so international markets did outperform very nicely last year into earlier this year. The emerging market index and what we call the EFA index, which is the non-US developed market index--so think Europe, Japan—they're down 10% from their highs. But the S&P is down 7.6.

So those markets do tend to be a little bit more volatile. But that's within a similar realm. So it's not like international stocks are down three times as much as the US is. And, again, they all have very big tailwinds of double-digit earnings growth helping them sustain the gains that have been earned. So I think that still leaves a solid underpinning.

The dollar, obviously, being higher leaves a currency translation effect. And so that alone could explain some of the underperformance. But I think all the conditions that were in place before this conflict started a few weeks ago—again, assuming that oil prices are not 50% higher a year from now—I think will resume or continue. And who knows? Maybe the dollar doesn't stay strong.

I'm already seeing some reports that Iran is negotiating with partners, oil customers, in the Far East to ship their oil and to get paid in Chinese Yuan. So there could be other geopolitical dimensions that takes the oomph out of the dollar a bit. And then you want those international markets because you benefit from the currency translation.

HEATHER: Hey, Jake, is it common for the dollar to go up during market volatility or risk off events?

JAKE: It's funny you ask, because, going into this, a lot of people would think that. And then they see these risk off events, the dollar going up, and they're like, oh, dollar is a safe haven. Actually, we went back and just studied this through time and actually found out that's actually not the case. There are times when the dollar would go up during very weak periods of the markets like the GFC, which we could remember very clearly. But if you look back at other times historically that wasn't the case.

And so what's more important about the direction of the dollar is its starting point. And so this goes back to the point of why, in the beginning of the year, our outlook was for non-US to be attractive and the dollar to continue its descent, because we were coming off of a two-decade period where the dollar has just been going up, and up, and up, and up, and up. There are several factors that we actually think that, to Jurrien's point, where this may be a short lived type of safe haven move and maybe a little more tactical in nature. And the dollar, we think, is more likely to continue on its downtrend.

And one thing to look at and focus on is how central banks react. If non-US central banks start to raise rates to fight inflation and the Federal Reserve, say, cuts rates to, say, stave off employment concerns, that could move currency markets and move the dollar lower more so with the bigger impact than just these other kind of safe haven things. So I think it's a natural thing to think that the dollar is a safe haven play. But if you look at the data historically, it's just not always the case. And this is another reason of why having non-US exposure, especially with the dollar as overvalued as it is, in our opinion, makes sense to try to diversify away from.

JURRIEN: Sorry. I would just add to that. Again I mentioned at the top of the show, you look for those sort of aha moments in the market, things that are happening. So when you have a real risk off global liquidity crunch like we had with the financial crisis in 2008, the dollar would go up and bond yields would go down.

The dollar is up, not even that much, actually. But bond yields are at 4.4%. They're up a lot. And that tells you that maybe this is not so much a liquidity crisis, but more of oil is up. And it gets paid for in dollars. So dollars are up. And so it makes me wonder whether this is a sustained move in the dollar.

HEATHER: It's been a different story for precious metals. You kind of hit on this at the beginning of the show, Jurrien. Can you talk about how gold has behaved since the conflict in Iran began?

JURRIEN: Yeah. So that, actually, is, again, a head scratching moment where you're like, OK, what is the market actually telling us? So fundamentalists think that the market should do what the fundamentals claim they should do. And technicians are like the markets know everything that's knowable at this moment. It can change tomorrow. But everything is in the price.

So gold went down $1,100, from $5,600, actually, to more—to $4,100 just in the last few weeks. And on the surface, it makes no sense because there's geopolitical risk. So the theories are Gulf countries had to sell their gold reserves because they're not selling oil or gas. OK, maybe.

Maybe they're selling their treasuries. Maybe that's why Treasury yields are going up. But maybe it's just people are in crowded trades. They're playing momentum. Gold went up a lot, right? It probably went up more than it should have. And people reach for wherever the liquidity is, and maybe that's in gold right now.

I think there's another element—and not to get into Bitcoin, that's probably another show, but Bitcoin has been resilient while gold has been selling off. So I wonder if there's even some kind of cross-asset allocation narrative going on. But definitely gold and bond yields are the two things that zag when probably the first impulse would be to expect them to zig. And that, I think, is interesting to follow up on to see what actually this is telling us.

HEATHER: Yeah, certainly, very interesting. We know some of the market volatility in the last week wasn't just caused by the conflict in Iran, though. We need to also talk about the concern from investors now that rate hikes could actually be on the table this year after last week's FOMC meeting. And, Jake, there's a lot going on right now for the Fed, from the upcoming leadership changes, to economic disruptions from Iran, and also stagflation concerns, which we talked about at the top of the show. I'd love to get your outlook and your team's outlook now for interest rates in the year ahead

JAKE: Yeah. So our view on rates has definitely changed because rates are now higher. The 10-year yield is 45 basis points higher over the course of March. So, yeah. Right now, bond yields are, obviously, more attractive with a more attractive price right now, given they're providing a higher yield than they were just three or four weeks ago.

But overall, what's interesting is, to your point about the Fed—and this is the point that Jurrien and I were making at the beginning of the show—ultimately, the market's going to have a different narrative and go back to understanding and trying to focus on what's going to be important. And the Fed's next move is extremely important.

It's pretty remarkable that the market has priced out two Fed cuts this month, and we're now pricing in about no cuts and maybe even a smidge of a hike, to your point, Heather. I find that to be pretty far fetched. I think the market is basically just trying to digest things. It could be, to Jurrien's point, this could be just positioning unwinds of short dated futures contracts and a lot of movement of different parts as volatility goes up.

As things settle, will the Fed raise rates if oil prices are higher, if it's having a negative impact on consumers, and if the job market still isn't showing significant growth?

That's very hard to see. So a lot of the things that we'll continue to monitor in terms of will jobs be coming back, or is AI disrupting those? The Fed, just keep in mind, will want to take more caution than anything else.

It is highly unlikely that they're going to try to just basically take a leap of faith and assume that the labor market is fine, assume that growth is not going to take a big hit, and just be concerned about higher oil prices staying high for a while and raising rates. So the odds, in our opinion, of that is pretty low despite the market pricing that in. So the overall view on interest rates, in my mind, is at the current point, with, say, the 10-year at about 4.3%, 4.4%, probably more likely to head lower from here by the end of the year. But with the highest confidence, I'd say, is that rates volatility, commodity volatility, and probably equity market volatility are likely now going to be higher going into the year compared to where we were just a couple of months ago.

HEATHER: All right. Well, from one insider to another, Jurrien, before we go, I'd love to get your overall thoughts on how you are watching things right now, what you're most focused on right now, either this week or long term too.

JURRIEN: Yeah. So, obviously, we're all watching all the markets that we were talking about over the last 20 minutes. But one thing I would want to just drive home for the audience who's watching is that, look, we can't predict these things. No one can. If we thought, OK, I want to be out of the market whenever anything bad happens, we would never be in the market. And we would just be earning a yield on our cash.

And you don't compound doing that. You have to take some risk. And the key is to have diversification in a portfolio, to have a balanced portfolio where you can sleep at night while also achieving your goals. And, as disturbing as these events are, not only from a human perspective, of course, but from a markets perspective—no one likes volatility—take it as an opportunity. For every crisis, there's an opportunity.

And while we can't predict these things, we can look at the markets as they unfold and react to them by saying, OK, is there an opportunity? Are bond yields at 4.5%? Is that something I want to rebalance into? We're always looking to rebalance our portfolios. And when you have sharp moves in one way or the other, those allocations will shift.

And then we want to rebalance. So think of it as, OK, we didn't predict this, but we can at least react to it. And, as our portfolio managers in the stock market always say, you want to be a provider of liquidity, not a taker of liquidity. So when people are panicking and they're doing something, maybe take the other side of that and use it to rebalance.

HEATHER: OK. So there's another way to think about it. I know, Jake, you had a nice way to put it too, that they don't call them risk markets for nothing, basically, right?

JAKE: Exactly. Exactly. So there's always risk out there. This month, the focus is in Iran. Last month, it was on AI. The month before that, it was probably, coinciding in February, it was on private credit. So what we do on the Asset Allocation Research Team is we are basically trying to research where those risks are and ensure that they don't become significant enough to deter the US or global economies from their expansionary path.

And that's really the main point of why we have a business cycle approach and not try to get distracted by headlines. Because if you just keep reading headlines, you'll get nervous all the time and think that the world's a tough place and a risky place and never want to invest in risk assets. But if you understand that risk is supposed to be there and there's just a price got to pay for it, and if, ultimately, you think that the economy is going to stay in expansion and have a high confidence there, then you stay invested. And that's how you can make money in these markets.

And so we're going to continue to focus on all those different types of things and see what's the next narrative in April, and May, and in June. I would think that, as Jurrien mentioned, we're probably going to have a higher geopolitical risk embedded in the system, a new world order that's going to be there. This is not over. But trying to predict when and if those occur is difficult.

So you just want to be prepared for those type of scenarios and make sure your portfolio is very well balanced and has enough diversifiers and is robust enough to handle different types of risk events that are very likely to continue to come as years go by.

HEATHER: Well, certainly, this discussion is not over. But we will leave it at that for today. But we're looking forward to having you on our mid-year outlook, both of you, Jurrien and Jake.

But thank you so much for giving us your time today, and a very busy time for you both. And if you would like to keep up to date on all the latest economic news, a great way that you can keep tabs at home on everything, even if you're busy, is to bookmark Fidelity's Market Volatility page. It's simply Fidelity.com/MarketVolatility. There, you'll also find our latest *Market Sense* episodes as well and get all the latest insights from our Fidelity Viewpoints team.

On behalf of Jurrien and Jake, I'm Heather Hegedus. Thanks for your time. We hope to see you back here next week. And just a quick programming note—next Tuesday at 2:00 Eastern, Jurrien, myself, and one of our portfolio managers here, an AI portfolio manager, Chris Lynn, are all going to be together in one room next week. So we're excited for that. And we hope you'll register for that and tune in. Remember, you can catch us also on YouTube and wherever you get your podcasts. Have a good day.