Fidelity Viewpoints®: Market Sense

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TRANSCRIPT

SPEAKERS:

Heather Hegedus Jurrien Timmer Leanna Devinney

Heather Hegedus: Hello, and thank you so much for joining us for *Market Sense.* I'm Heather Hegedus with Fidelity. So Wall Street seems to be going all in right now. Last week the S&P marked it's seventh week of gains[1] after last Wednesday the Fed decided to hold rates steady so it now hasn't raised interest rates since July, in case you are keeping tabs. But more importantly it gave its clearest signal yet that its aggressive hiking campaign is finished by signaling that it might cut by as many as three times next year in 2024.[2]

So to talk about this significant development today is Jurrien Timmer, Fidelity's Director of Global Macro. And this is one of our favorite episodes of the year, sort of fitting that we saved it for the end of the year I guess, saved the best for last. Because we are going to be sharing the results of Fidelity's financial resolution survey which is now in its 15th year. 3,000 people from across the country were asked about their biggest concerns when it comes to their finances and how they plan to address them in the coming year. So Leanna Devinney is with us today and she is going to be breaking down for us ways to attack those concerns head on. Of course, she is a Massachusetts based branch leader here for Fidelity. A big welcome to both of you. Thanks for being with us today.

Leanna Devinney: Thanks, so glad to be here.

Jurrien Timmer: Great to be with the A-team for the last show of the year.

HEATHER: Wow, did you hear that, Leanna, Jurrien called us the A-team.

LEANNA: A-team, I love it.

HEATHER: That was my early Christmas gift right there, thanks—thanks Jurrien, I'm flattered. Before we begin, just a reminder to all of you out there. You can submit your questions for both Leanna and Jurrien by commenting on LinkedIn or YouTube or on our website if you're watching on any of those platforms live. And some of the questions that you submit may even be used for our 2024 outlook show that we are working on right now. So you can catch some of us together, in person, talking about what Jurrien and others are forecasting for the year ahead as well as investing opportunities for 2024. And that's going to be coming up on Tuesday, January 9th at our usual time of 2 Eastern. So we are gearing up for that big show, we're really excited for it and we love to hear from you about what you want to hear from our experts about on that show.

So with that today is Tuesday December 19th. The time has really flown this year. Our final show of 2023 as I said we've got a lot to talk about. So the Fed is loosening its tight grip, it's forecasting interest rate cuts for next year, Jurrien. Can we say now mission accomplished with the Fed's fight against inflation?

JURRIEN: Well, it certainly was a wild week last week. You know, so we had the big Fed meeting, right? So the Fed meets through its FOMC, or Federal Open Market Committee, meeting almost every month, but every quarter it has this big two day meeting and it updates its summary of economic projections. We get a new so called dot plot that shows where all the different Fed governors think rates are going to be.

And after an entire year of the markets thinking the Fed was going to pivot, meaning it was going to start lowering rates, the Fed has been saying until now, like well, not so fast. We are going to stay higher for longer because even though inflation is improving it is not down to the levels that we would like to see. And the market just kept pressing and the Fed just kept pressing back. And then all of a sudden, we had this meeting where the Fed basically said you are right, we are pivoting. And the dot plot shows that the Fed governors expect the Fed to cut rates three times in 2024. So that was really an about face that people were hoping for but really not expecting. The Fed really did more than I think anyone expected. And as you can imagine the markets, you know, celebrated that in a pretty big way. You know, the ten-year Treasury yield has now gone from 5% to below 4 in like seven weeks. I mean it's crazy.

And, of course, the stock market really went up in a big way and is actually now within a few percent of its all-time highs. So really a remarkable week. And I was frankly a little surprised how dovish—you know, we think of the Fed as hawkish or dovish, more inside jargon here. But the Fed was quite dovish last week and more so than I think it really needed to be. But certainly, the marketing is celebrating.

HEATHER: Yes, certainly the markets were euphoric, both the stock and bond markets, you know, making strong gains after that news. Certainly, has been a Santa rally. Do you see us staying in a bull market in 2024? How does this translate to where we are in the market cycle?

JURRIEN: Well, so the Fed's pivot, as it is called, raises the possibility that the very rare but coveted soft landing can be achieved. So if you think about it, going way back in history, you know, the Fed was founded in 1913. So it has been around for over a century, generally speaking when the Fed is raising rates, the yield curve, which is the difference between short term rates and long term rates, eventually inverts and that has historically always been an indicator of a future recession. And so as we came into this year, that was really the dominate fear. We were talking about it. Everyone else was talking about it. It was about kind of the left tail—if you think about a bell-shaped distribution, you've got the left tail which is recession. The right tail is inflation. And coming into the year, I think there was a lot of hand wringing about a recession, will the Fed break something by raising rates so much.

And then towards the middle of the year the fear was more towards the right tail event of, you know, rising interest rates and the Fed may be going even further in terms of raising rates and, of course, then the Fed started getting on hold over the summer as you indicated before. But it's the sentiment has been kind of driven by these two different tails. Now we're finishing the year kind of in that middle part of which is where Goldilocks lives. You know, the Goldilocks economy. And so, the hope is that the Fed—so inflation has come down, right? A year and a half ago the CPI was rising at a 9% clip. Today it's rising at a 3.1% clip. So certainly a very big improvement. The Fed certainly can give back some of these rate hikes because even though inflation is still a problem it's less of a problem than it was.

And so with the Fed now able to pivot towards, you know, slightly lower rates, the hope is that the Fed is sticking the landing, the soft landing. And if you get a soft landing, that's generally very good for the markets. And the last meaningful kind of analog to that was 1994. Not all of you were around back then, but I was. Alan Greenspan, the maestro as he was called, raised rates in '94 by 3 percentage points out of the blue. And he achieved the soft landing. He stuck the landing. And in '95 he gave back three of those rate hikes he gave back so he cut rates three times.

In 1994 the market was just in this holding pattern for a year. Sounds familiar because the market has been in a holding pattern for the last two years. And then in '95, and this is not a prediction but in '95 the S&P rose 37%. Again, not a prediction. But that gives you a sense of the sigh of relief that a soft landing can produce. And that's certainly the sentiment as we go into 2024. And remember, the market has been dominated by a handful of really large cap stocks, tech stocks, while the rest of the market has just kind of been left behind. And so my hope is that 2024 is that we'll see a broadening, a bullish broadening where the stocks that were kind of held under this vice of a tightening—of tight monetary policy can kind of breathe again. And that's my sense for 2024.

HEATHER: All right, hoping for a bullish broadening. By the way, Jurrien, not only was I around in the mid 1990s nut at the end of the 1990s and early 2000s, I worked with Alan Greenspan's wife.

JURRIEN: Excellent.

LEANNA: I was in kindergarten. I'll admit.

HEATHER: Okay, well now everybody knows how old we are. All right, so let's talk about counting down tot he new year here. One reason I'm wearing this sparkly top today. And we are learning as we are heading into a year that this is good news. Americans are feeling pretty optimistic, pretty good about their financial futures which is always good to hear. So according to Fidelity's 2024 financial resolution study, 66% of the people who we surveyed are planning financial resolutions. And two out of three people surveyed are feeling more confident, that there are brighter days ahead so that's wonderful to hear. Leanna, just curious if this is surprising to you at all and what kind of sentiments you are hearing in your branch? Are you encountering this type of optimism in your branch?

LEANNA: I am. So I lead a team of financial planners here, and a lot of the sentiment has been positive. And yes, it could be the market which has been nice just what Jurrien was saying. But many clients are coming in the end of the year and they want to get organized. They want to implement strategies to set them up for success. And the Fidelity study found that Americans want to improve their financial lives by conquering their financial goals and gearing up for a year of new chapters and also living practically is what the study found. Pandemic pessimism is subsiding and planning is making a comeback with women leading the way. So the study found that 83% of women agree that having a plan in place will help them handle the unexpected and 78% of men also share that sentiment. And also the younger generations continue to express the most confidence so three out of four claiming they'll be better off financially in 2024.[3]

HEATHER: That's terrific to hear. And always good as responsible investors to hear that more people are making financial resolutions. What are some of the most popular financial resolutions according to our survey, Leanna?

LEANNA: This year's top three financial resolutions you'll see on your screen, came out of save more, pay down debt, and spend less. That's all pretty close to one another in terms of the most common resolutions. Save more money came in as a top resolution with 41% of people surveyed giving that response. Pay down debt came in close with 38% of people surveyed. Followed by spend less and that's pretty consistent from previous years' resolutions. I think this is our fourth *Market Sense* on the resolutions. And that's what we have seen. But a slight shift from last year, more Americans are looking to prioritize long term goals. So like retirement, college savings, health care, compared to short term goals being credit card debt, mortgages, or some big ticket purchases. I think this is great to hear because a big part of what we do when we work with clients is to help understand the responsibilities of your investments based on the time frame for your goals. So your shorter term goals are going to be treated differently than your long term goals.

And think long term goals is typically more than five years, while short term goals is going to be less than five years. And so we talk about things for short term like CD's, money market, savings. Long term might be more like diversified portfolios where you are going to have equity exposure and fixed income.

HEATHER: Okay, also no surprise here. Our study also found that inflation continues to be the biggest concern for the survey respondents along with unexpected expenses and also economic uncertainty which sort of all goes along those same lines. Jurrien, I wanted to bring you back in because at the top of the show we were talking about the Fed's seemingly successful progress that it's made against inflation this year. So where the Americans still feeling the pain of inflation and when will the full relief come or will it come?

JURRIEN: I think it takes time. And remember last year—so when we take the—so the peak was 9% in June of last year. But for the entire year inflation was, you know, 5-6%. So really significantly higher than what we have—what we're used to, right? For the last several decades inflation ran at 2% or even less. So from 2 to 5 is a big jump. When we look at the inflation data today the CPI, which is the Consumer Price Index, is down to 3.1. But the core CPI which strips out food and energy, not that we don't consume food and energy, but the Fed likes to look at that because the food and energy components tend to be more volatile. That's running, you know, closer to 4. And if you want to keep going and stripping out things, one of the new favorite indicators of the Fed is called super core which also strips out housing, not that we don't need a place to live.

But the reason for that is that the housing inflation has very long lag times because, you know, when someone signs a lease, you are in that lease for a year. So the Fed wants to measure, you know, how much affect its tightening has had. When you strip out housing as well as food and energy, super core inflation is running around 4%. So when you think about that part, it is improving. But it is still 4% higher. People are still paying 4% more for stuff than they did a year ago.

So inflation is improving. But any time it goes up, you know, it's inflation and people have less money to spend for every dollar they make. Now fortunately people's wages are generally keeping up with inflation right now. And, of course, you know, other than, you know, a lot of bank deposits which still don't pay a lot, if you buy a money market fund you are getting a 5-5% plus. So at least, you know, that mitigates the pain somewhat.

But it is understandable why people are still feeling this. And certainly, older folks who are around during the inflationary days of the '70s are probably concerned that, you know, we are back to kind of this great inflation. I don't think that we because I think the Fed did so much so quickly that it is working and this is actually what's allowing the Fed to give back some of these rate hikes. But, you know, it's understandable that these are slow moving things that people take note of and we see it, you know, everywhere we go, that we're paying more than we used to.

HEATHER: Yeah, and you talked about wages. You know, not everyone's employer is keeping up with inflation. Some people are lucky to get a 2% adjusted, you know, cost of living increase in their year-to-year paycheck. Some people don't get anything so, you know, that's certainly a problem.

But encouraging what you just said there, Jurrien. We're continuing this theme today of reflecting on the past year. You mentioned, Jurrien, about that we were talking about interest rates being so high. And that led a lot of investors to look for some instant gratification this year from high yield cash accounts which was one silver lining of higher interest rates. Now we are anticipating the Fed starting to cut rates as we've been saying so, Leanna, I was wondering if another possible financial resolution that our viewers out there might want to consider today that might be helpful and timely, might be taking this time now to revisit their full plan as things might be changing again. And if you agree with that, how would you recommend going about doing that?

LEANNA: Yeah, I think you are right. So last year, you know, we did have really high rates. And so many were saying, you know, why don't I park my money in cash and I can earn 5%, and not bother. And Jurrien and I would speak on thinking—having that long term view even throughout the volatility. So when it is a great time to revisit the full plan. And when we talk about full plan it is making sure that you have an emergency fund that has the competitive rate, but also making sure that your other goals are aligned to your investments. And that's where that well diversified strategy can come in.

So we talked about again short term goals and that would be appropriate to look at those high yields or money markets, CDs. But then for intermediate goals or long-term goals like retirement or college savings, things like that, that's looking at all the different pieces of the pie and having a well-diversified portfolio that you are comfortable with your risk tolerance, your time horizon, full financial picture and then building a plan for that. So that's what I mean when I say take a look at your full plan. It is a great time to start in January or now. New Year's resolutions to do just that.

HEATHER: All right, take a look at your full plan. Great suggested steps there, Leanna, thank you for that valuable information. All right, I can't believe I'm saying this but it is time now for our final Timmer's Take of the year. Jurrien, what are you watching besides, you know, as we look ahead now to what the Fed might do in 2024, what else are you watching?

JURRIEN: Well, so the year is obviously coming to an end. The market got, you know, a big holiday present, the Santa rally. In January, you know, we get to do it all over again and the markets will take a fresh look at the two things that are always driving the market, earnings and interest rates. And so, in a few weeks into the new year we will get the fourth quarter earnings season will get started and again, it is a measure of, you know, did we get that soft landing. And so far it certainly looks that way.

So then it is a question of how much will earnings grow by and the fourth quarter will give us sort of an early read on that. We know where the Fed is. And so, you know, for me, the question really is what I mentioned earlier, this bullish broadening is I want to see underneath the surface of the market how many stocks are participating because ultimately when you have a sustainable healthy bull market, it's, you know, the soldiers that participate, not just the generals. And so that will be something that I'm going to be watching for.

HEATHER: The generals being the large caps and the soldiers being the small caps, got it. All right, Jurrien, and as you like to say, it's always earnings season. Always watching that. All right, now I don't know if you folks out there know this about Jurrien but in addition to being our Director of Global Macro here at Fidelity, he is also a seasoned chef and a mixologist. You can always find him serving up investing tips while working his magic in the kitchen through social media. He's got a series called Invested not Stirred on social media pages for Fidelity, including TikTok. So we want to share his latest video because we though this might actually be something you might want to consider serving up at your holiday party this year. Take a look.

HEATHER: Jurrien, that Goldrush drink looks good.

LEANNA: It looks really good. I'm not a whiskey or mocktail whiskey. But I think that looked great and you looked great as always.

JURRIEN: Thank you, thank you.

HEATHER: Was that as much fun to shoot as it was to watch, Jurrien?

JURRIEN: It was a lot of fun. It's a biggest production than it might seem by watching the finished product. But it was a lot of fun, we shot two or three different ones that day. And it was, you know, it's my alter ego I guess.

HEATHER: It does seem like your alter ego. Will you be serving the Goldrush at your holiday party or something else, Jurrien?

JURRIEN: I'll be serving something but I'm not sure what yet.

HEATHER: Well, you can always find Jurrien on social media, he is always cooking up something exciting and creative. So just a little reminder to look for him on TikTok and Instagram, on Fidelity's social media pages there. Now remember, if you missed any part of our discussion today and you want to see it again we show our replays on Youtube.com/Fidelity or you can search the words *Market Sense* on Fidelity.com.

For more financial resolution, guidance, and analysis on what you might expect from the markets and the economy in 2024, get out your camera phones. That QR code on the screen right there will take you to our investing outlook page. Also if you have questions about making a financial plan, Fidelity can help. You can go to online, you can go to our website, or download Fidelity's app to learn more.

And finally, I just want to remind everybody about our special 2024 outlook show. It is going to be Tuesday, January 9th at 2. You can hear from Jurrien and other Fidelity thought leaders. We're really excited to bring you that special report and we're working hard through the holiday to get that ready for you. So on behalf of Leanna Devinney and Jurrien Timmer, I'm Heather Hegedus, we want to wish everyone a happy holiday and we will see you back here in 2024.

[1]Associated Press 12/15/23: https://www.msn.com/en-us/money/markets/stock-market-today-asian-markets-churn-upward-after-the-dow-ticks-to-another-record-high/ar-AA1lxj26

[2]Fidelity Viewpoints 12/13/23: https://www.fidelity.com/learning-center/trading-investing/the-fed-meeting

[3]Fidelity 12/7/23: https://newsroom.fidelity.com/pressreleases/fidelity-s-15th-annual-resolutions-study--americans-ready-for-new-chapters-in-2024--with-2-in-3-conf/s/36714147-930e-4c2b-8730-a48f3dc470f1

[4]Motley Fool 7/17/21: https://www.fool.com/the-ascent/banks/articles/3-ways-to-effortlessly-boost-your-emergency-fund/

About Fidelity Investments' 15th Annual New Year's Financial Resolutions Study

This study presents the findings of a national online survey, consisting of 3,002 adults, 18 years of age and older. The generations are defined as: Seniors (78+)(78 respondents) Baby Boomers (ages 58-76) (758 respondents) , Gen X (ages 42-57) (683 respondents), Millennials (ages 26-41) (1,015 respondents), and Gen Z (ages 18-25)(468 respondents); although this generation has a wider range, we only surveyed adults for the purposes of this survey. Young is defined as those ages 18-35. Interviewing for this CARAVAN® Survey was conducted October 20-29, 2023 by Big Village, which is not affiliated with Fidelity Investments. The results of this survey may not be representative of all adults meeting the same criteria as those surveyed for this study.