

Fidelity Viewpoints®: Market Sense

Week 177 October 21, 2025

TRANSCRIPT

SPEAKERS:

Heather Hegedus Jurrien Timmer Scott McAdam

HEATHER HEGEDUS: Hi, everyone. Thank you so much for making the time today to join us for *Market Sense*. I'm Heather Hegedus with Fidelity. Stocks are rallying back from a week of volatility that was set off by a breakdown in trade talks with China. Also, a string of bad regional bank loans also created some concerns last week about credit quality. And the government shutdown is now about to enter its fourth week, which has left quite an economic data vacuum.

However, on the positive side of things, quarter 3's earnings season is underway right now, and several big name companies earnings reports are slated for today and later this week. So to dive into what some of those headlines might mean for investors, we are excited to be joined today, as we often are, by Fidelity's Director of Global Macro, Jurrien Timmer, who is dialing in today from Chicago.

We're also grateful to be joined today by Scott McAdam. He's an institutional portfolio manager here with Fidelity. And he's here today to talk about rate cuts, this bull market, and the estimated \$7 trillion, and that's actually a conservative estimate, that is still sitting on the sidelines in cash accounts right now. It seems we've been talking about that money sitting in cash accounts for a while and it's still there.

So thanks to both of you for joining us today for a really important topic. I appreciate you making the time. And Scott, it's good to see you.

SCOTT MCADAM: Thanks. Thanks for having me.

JURRIEN TIMMER: Yes, greetings from the Windy City.

HEATHER: I'm sure you haven't actually been outside, and you probably can't tell us what the weather is like out there, Jurrien, because I you're so busy right now.

JURRIEN: That's right. Actually, I spoke at a big event just two hours ago, so I walked two miles there and two miles back, so it's actually very nice, very fall like.

HEATHER: I'm glad you got your exercise in between talking to investors who I know are eager to hear your thoughts on things. Let's set the scene here. Today is Tuesday, October 21. Jurrien, as I mentioned, we're going to dive into a discussion in a moment on what to do with cash that you may be ready to invest. For some, gold may be an alternative asset class that they have turned to in that kind of scenario.

So first, we would be remiss if we ignored the big headline in that space today, Jurrien, and that's the market sell-off going on right now for gold and silver. The biggest drawdown since 2013, but important to point out that's following a very strong run-up in that space. So it sounds like there's a multifaceted reason to why this is going on, Jurrien. Can you talk about that?

JURRIEN: Yeah, so gold has had, of course, a meteoric rise this year, up some 60%. And for gold to do that is pretty rare. I mean, it tends to be kind of boring. So gold has been anything but boring. And silver has been along for the ride as well. So I wouldn't read too much into the sell-off just because it's been an absolute one-way train up, and people take profits, and you could argue that if the rally in gold is a hedge against maybe some possibility that the Fed might lower rates further than is warranted, you can make those arguments.

But nothing goes in a straight line. And so I think the value case or the use case for gold is still there. But the markets never go in a straight line. So I personally don't think there's a lot going on other than everyone's hitting the sell button to take some profits.

HEATHER: All right. Fair enough. Let's switch gears then and talk about corporate earnings, Jurrien, which definitely seems to be a strong spot right now. So most of the S&P companies who've reported so far have beat expectations, although we're still fairly early on in quarter 3 earnings season, Jurrien. What have been your big takeaways so far from the earnings that have been reported already?

JURRIEN: It is early. 78 companies have reported so far and so far, there were a few cracks in some of the banks, as you mentioned. But generally speaking, the earnings are coming through nicely. Those 78 companies, 84% of them are beating estimates by an average of about 6.6%. So what we're looking for is the first and second quarters, the expectations were somewhat muted. And then those companies really delivered. And the growth rate that was expected ended up bouncing by a good 5, 6, 7 percentage points up into the double digit growth area.

And the expectations for this quarter were 7% going into the quarter, are now already up to 8%. And my guess is that we'll probably end up in double digits as well. And the reason this is important, of course, is because we're now in year four of this bull market, and year one was all valuation. Earnings actually fell very slightly in 2023. Year two saw 11% earnings growth which is good. And that growth was amplified by more valuation evaluation gains.

And then now again earnings are doing the heavy lifting up about 11% year to date. The valuation is taking a little bit of a back seat because the market's been churning up a little bit this year. So we want to see earnings come through. We have to see earnings come through. And obviously, the big Mag 7 have yet to report. And those will be very important as well because that is 36% of the market.

HEATHER: All right. Well we will continue to follow along with you as more companies also report their earnings. But Scott, you're up. Let's pivot right now from the headlines. Let's talk about rate cuts. So just to set the stage, we know a lot of investors have been taking advantage of high yields previously when those high yields were there. But now we are in a different economic landscape.

Many higher yielding CDs and short-term bonds are maturing if they haven't already. Also, yields on money market funds have already come down. So for somebody who is still in these types of cash-like accounts, Scott, why might it be time to maybe consider changing course, so to speak? What would you say to them?

SCOTT: Well, for clients that are looking to grow their wealth over the course of, say, several years or even decades, holding cash has rarely been a winning strategy. That's not to say that we shouldn't hold cash. Because we all can run into an emergency, or perhaps we have a pending expense that's a big one coming up, whether it's a tuition payment. It's just that returns on cash-like investments, have historically underperformed most other traditional asset classes, particularly over long periods. And oftentimes cash returns haven't even kept up with inflation.

These days, cash returns are getting squeezed. On the one hand, you've got the Fed that's recently reduced the short-term rate, and that rate heavily influences these money market yields. And more cuts are anticipated so they could continue to go down. And secondly, you've got inflation that's running warmer than how the Fed prefers it. So you've got this dynamic here where you've got Fed rate cuts pushing money market yields down coupled with higher inflation. And so the value of the dollar is being eaten away more quickly.

That's why I say to really grow wealth over time, investors should consider longer term investments that have the potential to not only outpace inflation, but generate meaningful returns that can help them achieve their longer term financial goals. So unless a client really needs cash in the near term, there are numerous options for investing over any time frame that they're looking to.

If the client only has a few years, they can target a number of investments that are still relatively low risk, yet offer the potentially higher return than cash. And unlike cash, these investments give clients the opportunity to not only lock in yields for several years, but may also offer the potential for price appreciation and that can enhance returns.

Now, to be fair, cash alternatives are some of the safest and most liquid investments out there. So to get higher yields, clients will need to trade off some of that safety and liquidity. However, the good news is that there are a lot of investments that can offer strong protection against potential loss and provide adequate liquidity in case the client needs to raise cash.

HEATHER: OK, so why don't you lay out some of those potential options that you just mentioned, Scott, when it comes to where to put the cash.

SCOTT: Well, there are a lot of them. I mean, Fidelity provides lots of options for clients that not only want to invest on their own, but perhaps if they prefer to seek a professional to manage their money. If a client has a short-term investment horizon, say, three to five years, they can choose from CDs, annuities, or even a bond strategy. As I mentioned, the Fed cut the short-term rate, which is the overnight borrowing rate. But for longer term yields, like a three-year CD or a five-year bond yield, those are determined by the market.

So what's interesting about this most recent cut is that shortly after, longer term yields went in the opposite direction and moved higher. Now they've come down again. But that made longer term bonds like say, a 10-year maturity, look more attractive. With a fixed term product like a three-year CD or a five-year fixed annuity, the upfront yield is pretty much all a client should expect in terms of receive as their return. That's because CDs and fixed annuities, the market value does not move, does not change for the entire term of the investment.

In other words, CDs and annuities aren't traded and so the market doesn't affect their price. With bonds, clients still hold a short-term investment over that short-term horizon, but bonds are actively traded. And so there might be a move up or down in the bond's value before it matures. So if the yield of a bond held by one of the clients moves lower, the price should go higher. Alternatively, if the yield goes up, the price goes down.

But in the case of a bond price moving higher, a client can potentially sell that bond at that higher price than what they paid, which should enhance their overall return. This dynamic of the combination of yield and price action is what we call total return. That's the potential upside or downside by investing in bonds that CDs and annuities just don't offer.

Now, of course, you don't have to sell a bond. So even if the yield goes up when the price goes down, you can just hold it to maturity and the bond will repay its principal. The client just simply earns the yield. Now, constructing a portfolio of bonds takes a fair amount of work. And we do have folks at Fidelity that can help clients with that. Alternatively, a client can look to a

professional to manage a bond portfolio for them. And the simplest way to do that is to invest in a fund, like a mutual fund or ETF, or by investing in a separately managed account, which is a short. We call it an SMA.

HEATHER: So all right mentioned the two different types of professionally managed accounts, SMAs like you just said and funds. Can you talk about the pros and cons of each of those strategies?

SCOTT: Well, actively managed bond funds like mutual funds and even some ETFs are usually large pools of capital that hold well-diversified positions and have hundreds, if not thousands of investors. The size and diversification traits mean that the fund can provide access to parts of the bond market that usually do-it-yourself clients can't. Also, given the fund structure, there's daily pricing, and that's expressed in the form of the net asset value, or NAV, which is the price the fund can be bought or sold on any given day, any trading day.

Lastly, these large bond funds usually have many investors that each own a relatively small proportion of the fund. Now, SMAs are like a customized bond fund for an individual client. Assuming Fidelity is the SMA manager, strategic advisors constructs the portfolio and each bond position appears in that client's account. Whether a client invests in a fund or an SMA, the manager will typically seek and dedicate lots of resources to researching, monitoring, and trading bond positions as they try to achieve high total return.

Now, the pros and cons of these strategies are usually in the eye of the beholder. Some clients simply prefer to achieve the maximum amount of diversification which a fund provides, and they're comfortable investing alongside many others. Other clients prefer to see each position in their account, and they're willing to give up some of that diversification for transparency. So ultimately, the choice between a fund and an SMA usually just comes down to the client preference.

HEATHER: All right. Great breakdown there of all of your different options or a lot of the main options there, Scott. I another option though, if you're really looking for long-term growth is stocks. So I thought we'd bring our equities expert back in here, Jurrien. So Jurrien, as we've been saying for a long time now here on *Market Sense*, anybody not in the stock market right now has been missing out on double-digit returns. The stock market's been reaching record highs for the past three years. I think it might be helpful for folks at home if you could break down how cash has historically fared versus stocks. How does that match-up play out?

JURRIEN: Yes. So as Scott mentioned, for a long-term portfolio, cash usually doesn't compete very well with stocks because of the compounding effect. They call compounding the eighth wonder of the world, right? And so if you're in the market for a long time and let's say for stocks, you're earning a 10% return. Compounding 10% over many years really creates remarkable returns.

Now if you're in cash or bonds and you're earning, let's say, 5% or 6%, that's still good, assuming that inflation is below that. But 5% does not compound anywhere close to where 10% compounds, even though it doesn't really sound that much different, but that value over time really, really matters. And the stock market goes up 70% of the time by an average of 10%, 11%. I always liken it to you get a really good return, but the price of admission is that you need to suffer through gut-wrenching volatility sometimes.

So having diversifiers, which could include some cash, but also bonds of course, and others like we mentioned gold earlier, is a way to mitigate those risks. But again, a short-term asset that the yield can go up, but it can also go down. Right now the Fed is cutting rates. So you're getting less income on that cash. Even though inflation has remained pretty stubborn at around 3%. So you're only getting about 1% over the inflation rate.

If equities continue to grow at their historical run rate of 10%, 11%, that would be 7%, 8% above the inflation rate. And again, in real terms, now you're compounding 7%, 8% versus 1%. The difference is even starker there.

HEATHER: And we always say, of course, that you're better served by a broad, well-diversified stock portfolio, rather than just focusing on narrow segments of the market. But I was wondering if you could just take this discussion just to click down even, Jurrien, and talk about within stocks, without naming names, of course, just parts of the market that seem to be looking particularly attractive right now. And for anybody who's feeling maybe cautious about high valuations of tech stocks, can you talk about what some other potential opportunities are out there in the stock market right now?

JURRIEN: Yeah, so it has been somewhat of I guess a double-edged sword if you will. So the bull market just turned four. We're now three years in one week into this bull market that began in 2022. Market's up almost 100% almost double. So that's pretty good. But that 100% or 95% as of last week comes with a lot of concentration. So that 95% has been dominated by the stocks we're all familiar with, the Magnificent Seven. And they've been doing the heavy lifting, which is not to say that the rest of the market hasn't done anything, but they haven't gone up as much.

So that 95% would not be 95% without this heavy concentration of these really, really big companies. And that is great while it goes well, but it also creates some concentration risk that if any or all of those seven stocks ever decided to go down instead of up, the indexes probably would go down even if most of the stocks in the index are still doing OK. And again, that's the concentration risk. Seven stocks are 36% percent of the market. The top 10 stocks are 41% of the market. And so where do you go to diversify from that concentration risk?

And you can go into different sectors. You can go what we call down cap and buy smaller companies. But these days actually there are opportunities overseas as well. Non-US markets, and always talked about that. I've talked about it. Non-US markets are finally in the game. This

bull market is now a global bull market. And there's a lot of opportunities of companies in Europe and Japan and other places that have competitive fundamentals in terms of earnings and how much of those earnings are returned to shareholders as buybacks and dividends. And valuation, non-US stocks trade at a 16 P/E. The US trades at a 22 P/E. And so there are ways that we can diversify our stock holdings so that we're not overly concentrated at this time.

HEATHER: All right. You can sprinkle in some international. You can go down cap. There are many options there to help diversify. So we've talked about stocks. We've talked about bonds. We've talked about cash today. Scott, I was hoping you could bring this conversation together a little bit, put it all together for us, and talk about how your team puts together all of those kinds of asset classes in a multi-asset class managed account. Can you talk a little bit about what that might look like for a client? In other words, how do you take each of these components that we just talked about and construct managed accounts out of them?

SCOTT: Yes. They're all important role players, if you will. An easy way to think about these multi-asset class portfolios is as a so-called 60/40 portfolio. And we construct these portfolios using all the things we've just talked about, traditional investments like US stocks, international stocks, high quality bonds, cash alternatives. They all play significant roles in these portfolios. But we also will use other asset classes that don't fall neatly into a stock, bond, or cash category. We call those opportunistic asset classes, and they can include commodities, liquid alternatives, real estate investment trusts, treasury inflation protected securities, just to name a few.

Now, in general, stocks act as the growth engine of our clients' wealth. So that first number, that 60 in the 60/40 that represents the percentage of stocks held in that multi-asset class portfolio. The rest of the portfolio, the 40%, that's meant to achieve a different objective, and that is to temper the ups and downs that the stock market experiences over time. In my view, high quality bonds are a great choice to make up most of that 40% because the relative safety of bonds compared with stocks helps to stabilize the overall returns of the portfolio.

So for many of our managed account clients, bonds play a significant role in achieving diversification benefits to potentially help them just stick to their investment plan over time. In my view, there are three really important things—establishing an investment plan, focusing on reaching a long-term goal, and then sticking to that plan through some challenging times. And we believe that will best position our managed account clients to achieve a positive investment outcome.

HEATHER: All right, Scott, thorough discussion today. We always like to end things with Timmer's take, with just Jurrien's take on what he's watching this week with the markets. Jurrien, what are you watching? Take it away.

JURRIEN: It's earnings season. Seeing if the numbers are going to continue to be delivered. And of course, how the Mag 7 are going to do on their earnings. So we are in the midst of earnings season this week. And next week will be big. And so there'll be a lot of data content there.

HEATHER: All right. Good note to end it on. Thank you to everybody out there watching and listening and sending in your questions today. We do want to leave you with a link to our fixed income bonds and CDs page, which is a great resource to further your research into this topic today. It's a great way to look up the current yields on everything that Scott talked about. All you have to do is go to [Fidelity.com/BondSearch](https://www.fidelity.com/BondSearch).

On behalf of Jurrien Timmer in the Windy City, and Scott McAdam in the Boston area, with me, I'm Heather Hegedus. Hope to see you back here next week. Remember, we are live Tuesdays at 2:00 Eastern. And we're also on LinkedIn and YouTube and wherever you get your podcasts. Take care, everybody.

¹Fidelity Viewpoints: January 29, 2025: www.fidelity.com/learning-center/trading-investing/how-much-cash-should-you-hold

²Fidelity Viewpoints: September 9, 2025: www.fidelity.com/learning-center/trading-investing/reinvestment-risk

Diversification and/or asset allocation do not ensure a profit or protect against loss.

Stock markets are volatile and can fluctuate significantly in response to company, industry, political, regulatory, market, or economic developments. Investing in stock involves risks, including the loss of principal.

Foreign markets can be more volatile than U.S. markets due to increased risks of adverse issuer, political, market, or economic developments, all of which are magnified in emerging markets. These risks are particularly significant for investments that focus on a single country or region.

Fixed income investments entail interest rate risk (as interest rates rise bond prices usually fall), the risk of issuer or counterparty default, issuer credit risk and inflation risk. Foreign securities are subject to interest rate, currency exchange rate, economic, and political risks all of which are magnified in emerging markets.

Investing in bonds involves risk, including inflation risk, credit and default risk, call risk, and liquidity risk.

Fidelity does not provide legal or tax advice. The information herein is general and educational in nature and should not be considered legal or tax advice. Tax laws and regulations are complex and subject to change, which can materially impact investment results. Fidelity cannot guarantee that the information herein is accurate, complete, or timely. Fidelity makes no warranties with regard to such information or results obtained by its use and disclaims any liability arising out of your use of, or any tax position taken in reliance on, such information. Consult an attorney or tax professional regarding your specific situation.

Information presented herein is for discussion and illustrative purposes only and is not a recommendation or an offer or solicitation to buy or sell any securities. Views expressed are as of the date indicated, based on the information available at that time, and may change based on market and other conditions.

Unless otherwise noted, the opinions provided are those of the speakers and not necessarily those of Fidelity Investments or its affiliates. Fidelity does not assume any duty to update any of the information.

To the extent any investment information in this material is deemed to be a recommendation, it is not meant to be impartial investment advice or advice in a fiduciary capacity and is not intended to be used as a primary basis for you or your clients' investment decisions. Fidelity and its representatives may have a conflict of interest in the products or services mentioned in this material because they have a financial interest in them and receive compensation, directly or indirectly, in connection with the management, distribution, or servicing of these products or services, including Fidelity funds, certain third-party funds and products, and certain investment services.

This podcast is intended for U.S. persons only and is not a solicitation for any Fidelity product or service.

This podcast is provided for your personal noncommercial use and is the copyrighted work of FMR LLC. You may not reproduce this podcast, in whole or in part, in any form without the permission of FMR LLC.

Past performance is no guarantee of future results.

The gold industry can be significantly affected by international monetary and political developments such as currency devaluations or revaluations, central bank movements, economic and social conditions within a country, trade imbalances, or trade or currency restrictions between countries. Fluctuations in the price of gold often dramatically affect the profitability of companies in the gold sector. Changes in the political or economic climate, especially in gold producing countries such as South Africa and the former Soviet Union, may have a direct impact on the price of gold worldwide. The gold industry is extremely volatile, and investing directly in physical gold may not be appropriate for most investors. Bullion and coin investments in FBS accounts are not covered by either the SIPC or insurance "in excess of SIPC" coverage of FBS or NFS.

Investors considering investments in bond funds should know that generally speaking, the bond market is volatile, and fixed income securities carry interest rate risk. (As interest rates rise, bond prices usually fall, and vice versa. This effect is usually more pronounced for longer-term securities.) Fixed income securities also carry inflation risk and credit and default risks for both issuers and counterparties. Unlike individual bonds, most bond funds do not have a maturity date, so holding them until maturity to avoid losses caused by price volatility is not possible.

Any fixed income security sold or redeemed prior to maturity may be subject to a substantial gain or loss. Your ability to sell a CD on the secondary market is subject to market conditions. If your CD has a step rate, the interest rate of your CD may be higher or lower than prevailing market rates. The initial rate on a step rate CD is not the yield to maturity. If your CD has a call provision, which many step rate CDs do, please be aware the decision to call the CD is at the issuer's sole discretion. Also, if the issuer calls the CD, you may be confronted with a less favorable interest rate at which to reinvest your funds. Fidelity makes no judgment as to the credit worthiness of the issuing institution.

Fidelity managed accounts refer to the advisory services provided for a fee through Strategic Advisers LLC (Strategic Advisers), a registered investment adviser. Brokerage services provided by Fidelity Brokerage Services LLC (FBS), and custodial and related services provided by National Financial Services LLC (NFS), each a member NYSE and SIPC. Strategic Advisers, FBS, and NFS are Fidelity Investments companies

This information is intended to be educational and is not tailored to the investment needs of any specific investor.

Personal and workplace investment products are provided by Fidelity Brokerage Services LLC, Member NYSE, SIPC, 900 Salem Street, Smithfield, RI 02917

© 2025 FMR LLC. All rights reserved.

1229951.2.0