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TRANSCRIPT

SPEAKERS:

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HEATHER HEGEDUS: Hello, and thank you so much for joining us for the 2026 investing outlook edition of Market Sense. I'm Heather Hegedus with Fidelity. If you're watching us on Tuesday, January 6, we are live as we are every week. But this week, we're also all together in one room, which is always exciting.

And it's a new year with new opportunities and new challenges. So that's exciting as well. We are kicking off 2026 with a positive economic backdrop, although there are still some questions about jobs and inflation. And as of late, there are also some new geopolitical questions, of course.

Also, the S&P 500 just wrapped another impressive year with a 16% gain, driven largely by solid earnings growth, and marks the third year in a row of the S&P delivering well above its long-term average return. And as we prepare to look ahead today, we are also going to try to unpack many things for you today, including the evolution of the AI trade, what new Fed leadership could mean for the markets, and how a pro-business policy agenda could support further corporate profits.

So there are a lot of dynamics to talk about today, but I can think of no one else to help us make sense of it all. Then the three guests alongside me today. So excited to welcome, first and foremost, Jurrien Timmer. Of course, he is Fidelity's Director of Global Macro and our unofficial quarterback, as we like to call him here on Market Sense. And he's going to be talking about the outlook for stocks, bonds, and even alts in 2026.

Also, we're thrilled to be joined today by Denise Chisholm. She's Fidelity's Director of Quantitative Market Strategy, and she's going to be talking about her research that focuses on historical trends to help inform future opportunities and risks as well.

And of course, last but not least, we've got Naveen Malwal with us today. He's a CFA charterholder and an institutional portfolio manager here at Fidelity for the strategic advisors team here at Fidelity, whose team manages millions of clients' accounts. And he's going to be talking about how he and his team manage portfolios in this environment.

So thank you to the three of you for making the time today. I know the beginning of the year is always a busy time of year for everybody, but especially for you. Jurrien, it's a pleasure to see you.

JURRIEN TIMMER: It's great to see you all in the flesh.

DENISE CHISHOLM: Yes, it's great to be back. Happy New Year.

NAVEEN MALWAL: Yes, Happy New Year. Let's get going.

HEATHER: Yes, Happy New Year. Let's do this. I'm really excited to dig in with the three of you. And we're only a few days into 2026, but already we have plenty to talk about as usual, right? We have this major geopolitical event in Venezuela over the weekend, Jurrien.

Some investors may be wondering what this might mean now for the markets, specifically for the global oil markets. How heavy should investors weigh these developments? And talk about from a market perspective, if you could, please.

JURRIEN: Yeah, so these geopolitical events, the main question always is for investors, is it systemically important for the markets? Will it affect earnings growth? Will it affect interest rates? Will it affect sentiment valuations? And I think this particular story, and the market's are already telling us, is not really considered a systemic event for the US markets.

But the question, of course, is what does it mean for the total geopolitical world order? Will some other countries view this as an opportunity to do similar things? China, Russia come to mind. And will that accelerate this new multi-polar world order that we seem to be in? And that can have long-term consequences, of course. But right now, at this moment for the markets, it's not considered to be a market moving event.

HEATHER: OK, I know it's something that you are all certainly watching closely and I'm sure we'll be talking about this year. But let's take a step back for a moment and talk about 2025, and reset for a moment, and just reflect on how we ended up where we are right now.

So one year ago, we were all together, all of us in this room for the 2025 outlook. And the new Trump administration hadn't even taken office yet. We were preparing for them to come in. And think about it one year ago today, how much uncertainty there was in the markets at that time, and how much that uncertainty really did carry on to be the theme for some of 2025.

And yet, despite all that noise, the markets were pretty resilient. It ended up actually being a very strong year for investors, which maybe in January, we might not have expected. What do you think the drivers were behind that strength that we saw, Jurrien?

JURRIEN: So I would describe 2025 as a year of many plot twists. And at the beginning of the year, I think the markets were pricing in what we would call a right tail outcome, so a price for success, if you will. And initially, that was the correct approach.

And then, of course, the whole tariff thing started to unfold. And, everyone knew tarriffs could be an issue after the election. But I think a lot of investors were kind of just keeping their fingers crossed that it was more bluff than anything else. But then it really came. And the markets had to price for what we call a left tail, like an adverse outcome.

Earnings estimates were slashed. We were starting to worry about trade wars, and capital wars, and things like that. The market fell 21%, which is pretty significant. But then the tariff threat receded. And the markets came roaring back. The AI theme kind of took over. The one Big Beautiful Bill Act started to dominate. And earnings started to really accelerate.

And 2025 became a year of very solid earnings growth, allowing the valuation side of this bull market cycle to take a back seat. And so I think for 2025, that was really the main takeaway. And of course, the other one from my perspective was that interest rates took a back seat.

The Fed eased a couple of times. And bond yields have been very, very quiet, much quieter than I expected. And so there were some benign backdrops in that sense as well.

HEATHER: Well to your point, Jurrien, earnings were one of the biggest drivers of the stock market's performance in 2025. So Denise, I wanted to ask you about that and what you think what you anticipate the biggest drivers may be in 2026. And if that indicates that we might have another strong year ahead.

DENISE: Yeah, I think in some ways, when you look at history, the 2025 drivers, I think, will help us into 2026 as well. So Jurrien mentioned the tax cut, which is, I, think underestimated still. It's about a 7% cut in the effective tax rate to corporate America. When you look at tax cuts, historically speaking, you do see earnings growth in the year that they're enacted.

But you also see a bounce in corporate confidence that we have actually seen that makes that earnings growth durable into the following year as well. So if history is a guide, the bolstering effect that we saw in 2025 might continue to 2026. That's on top of the fact that we already had a CapEx recovery.

Now, it sort of depends on the way you define it, but if you look at the entire broad S&P 500 and you add up all the CapEx dollars, how corporate America spends on stuff, and you normalize it relative to their sales base, you'll see that we've been in an uptrend since 2022.

Given this tax cut, it does seem likely that will continue into 2026. And that's good news, because when you study history, CapEx cycles like that are very strongly correlated with durable earnings growth. And when I look at the data, we have it broken down by sector and industry, it's not just technology. 6 out of the 10 GICS sectors historically are in this CapEx recovery, where CapEx, the companies in that genre, are spending more than their normalized sales base since for the last three years. So I think that continuation of CapEx recovery continues the cycle of durable earnings growth into 2026. And I don't think that valuation is extreme enough to be potentially offsetting that, which gives you another good year of market returns.

HEATHER: Really strong signs, Denise. Good signals there. We have seen some cooling in the labor market, though. And Naveen, l wanted to ask you about that. How much of a concern could that be in 2026?

NAVEEN: It's something my team and I are watching very closely. So we had a very strong year for the stock market. We had a growing economy. And yet, many consumers are feeling stressed out. Consumer sentiment, it's low. I think a key driver of that has been this softening job market.

So last year, we gradually saw the unemployment rise over the course of the year. It reached about 4.6% by the end of the year. It started around 4% at the start of the year. So that's an increase. But to put it into some context, the longer term, go back to 1950, unemployment has averaged about 5%, 5.5% So we're still at a very nice job market level right now.

And in a recession, unemployment has touched closer to 6% So we're not close to recession levels yet. Jobs are such a key driver for the US economy, because consumer spending represents about 70% of our growth year to year if you look at the GDP numbers. So as long as people are employed, even if they don't feel good about the economy, they'll probably spend money. And that can support further growth. So that's the backdrop.

Where we go from here, I'm going to lean to what Denise was just talking about. You mentioned CapEx. What is CapEx? CapEx is spending on land, on factories, on software, new things that can help your business grow. Well, to set that stuff up, you'd normally need people to come in and help put those things together. And once you have

HEATHER: Not computers.

NAVEEN: land, and factories, and computers, and software, you need people to come in and actually use those things. So this could lead to, actually, better job outlook for this year based on what these companies are seeing. And it goes back to the tax reform Denise touched on. The tax reform is going to put more dollars into the pockets of consumers, of many businesses. And that could all be a nice tailwind for perhaps a job recovery.

So what I'm hoping to see in this year is at least a stabilization. If the unemployment rate stops going up, that's probably pretty good news for the economy and the job market, obviously. But if it starts to actually lead to more job growth, that's an even more positive outcome.

So we'll have to wait and see how it plays out. But there are factors in play here that indicate maybe we're heading in that direction. And just as a reflection of that, there is a survey of small businesses that comes out once in a while asking them, are they planning to hire more? Over the last few months, that survey has been ticking higher. So hopefully that carries through into 2026.

HEATHER: OK, let's talk about tariffs as well, speaking of headwinds, tailwinds. So the Supreme Court is deliberating the legalities of tariffs. And we've just learned that they are, later this week, going to start those deliberations of whether they exceeded presidential authority.

So we don't know what the outcome of that is going to be at this point. But it seems the uncertainty that had been surrounding tariffs that you were talking about, Jurrien, in April, has gradually receded or gradually did recede last year, leading to less market volatility. Do you see tariffs being a factor for the markets in 2026, Denise?

DENISE: We saw them absorb it in 2025. I mean, I think that was the interesting thing about the market, and the offsets, the tailwinds versus the headwinds. I think everybody was focused on the headwind of tariffs. But when you added up all the dollars at the end of the day, as much as I think it's netting out to 12% tariffs where we are right now, as much as that's very unique relative to history, if you add it up just like a tax, it wasn't enough of a hit to the US consumer to drive consumption negative.

So it wasn't a recessionary hit. And what you saw is despite the fact that nobody likes to pay more for goods and services, it wasn't enough to be recessionary at the time when the market discounted a recession. And at the end of the day, given legislation, given lower interest rates, and given, in some ways, lower energy prices, there were a whole lot of offsets for the consumer.

So what we saw, even in 2025, was that the consumer and the market absorbed tariffs. As we roll through into 2026, we might actually be lapping some of those tariffs, which make it possible that we see the deceleration of inflation pick back up, which allows the Federal

Reserve to continue to renormalize rates because they can, not because they have to. So again, you've got multiple tailwinds for the market.

HEATHER: So tariffs is something you're watching. But it seems like that the concerns that we were thinking about when they were first announced in April have been assuaged a little bit.

Let's switch gears from going to the economy now to talking about stocks for a little bit and talk about this bull market, because this is what we were saying. This is really one of the biggest stories of 2025. It's over three years old. And depending on who you talk to, of course, the average length of a bull market is three years.

We've seen this market continue to reach new all-time highs. So first of all, what's going on with this market? Is it just bucking all the trends? And with valuations already so high, I guess Jurrien, I'll pose this to you, how much more room do you think this bull market has to run?

JURRIEN: So yes, the bull market started October of 2022. The S&P is up around 100% since then, which is a nice gain in the 3 plus years. The first year or two were driven entirely by valuation expansion. And of course, the Magnificent Seven was very much a part of that.

But in 2024, earnings really picked up. And they grew about 11%. And in 2025, they've grown another 12%. And so the good part about this bull cycle is that earnings are really carrying their weight. And it's not just about multiple expansion.

And so if those earnings continue to grow, as Denise indicated, it suggests that as long as there is not a lot of headwinds from interest rates or other things, that the bull market can continue. And again, that three-year average that you mentioned, back in the old days, you would have a four year cycle when the economy was more industrially based.

And so you'd go up for three. And you'd go down for one. Over time, that trend has been elongated. And when you have a more favorable secular context, we've been in a multi-decade upswing now, the bear markets tend to be very short. They're swift, but short. And the bull markets get longer. And that's what we've seen.

That drawdown in April lasted five weeks or so. Even the COVID decline of 35% was only six weeks. So they're very short and punchy. And then the bull market resumes. So my sense is that the bull market is intact. We're at pretty close to all-time highs. The participation is not as great as I would like to see. It is still

HEATHER: Meaning the market's not as broad as you would like to see?

JURRIEN: About 67% of the stocks in the S&P are in uptrends, which is better than nothing, of course. But my sense is that we're now in year four and earnings are carrying the day. And that's what we need to see.

HEATHER: Let's talk about that participation, as you put it. After three straight years of double digit gains, I think it's just hard for investors to just keep wondering when is this going to end? Was this euphoria going to end? And all the hype around the AI that's starting to look like a bubble to some investors, I think, is weighing on investors' minds. So what are your thoughts on concerns that AI enthusiasm may be overdone? And that question that we keep hearing, are we in an AI bubble? What do you think, Jurrien?

JURRIEN: And by the way, in 2000, because when you think about AI bubble, many people think about the internet bubble

HEATHER: The dot com burst.

JURRIEN: 2000 was or 1999 was the fifth year in a row that the S&P rose at least 20%. And that's never been done since or before. And so we're not anywhere close to that. But three months ago, six months ago, I was worried, a lot of people were wondering whether the AI boom would turn into a bubble.

And you start to see really punchy action in what I would call the cats and dogs of the markets, non-profitable tech companies, and meme stocks, and things like that. And certainly, we were starting to wonder, like, is this going to turn into a bubble. And as exciting as bubbles can be, they always end badly.

So we'd rather not have a bubble and just a boom.

Since that time, I think actually the likelihood of first of all, I don't think we're in a bubble at all. Second of all, I think the likelihood of becoming a bubble is actually now greatly diminished in my personal view. And the reason for that is that, all of a sudden, the scrutiny that maybe was lacking six, three months ago is now coming back.

People are really starting to ask questions about the circularity of vendor financing. And is it sort of like a zero sum game where some of the Mag Seven are competing for dominance against the other and they can't all win? And is there going to be too much investment in infrastructure and data center? And what is going to be the return on those investments?

And so it's good to see investors asking those questions, because during a bubble, nobody asks questions like that. They just are drinking the Kool-Aid. That's it.

[LAUGHTER]

HEATHER: All right, so you don't think we're in an AI bubble, and the likelihood that we are has greatly diminished. You said greatly diminished. OK, Denise, what do you think? Do you think that these concerns over valuations are justified? Or do you think there's still room to grow?

DENISE: Yeah, I mean, tech is expensive, no doubt about that. I mean, we have the data going back to the '60s. I'll define expensive as top quartile. I think we're trading, as a sector, around 30 times earnings, a far cry from, I think, 70 plus times earnings during the bubble. So that would be data point number one that, no, it's not a bubble.

But I think the interesting part is you say, OK, so technology is expensive. Does that mean you have a higher likelihood of underperformance, meaning that it's not going to be as good as the rest of the market, or that it's likely not to be market leadership in 2026? And what you can see is for the last 20 years, when operating margins have been an uptrend, meaning that the companies have been more and more profitable, which has been the secular trend, and we're talking about all the tailwinds to suggest that will continue, what you actually find is the stocks have higher probability of outperformance the next year when their starting point is expensive versus when it's cheap.

So it's one of those situations where it might not mean what you actually think it means. It's almost like valuation is just telling you, hey, hey, investor, earnings growth is very, very visible. So yes, you might not get a ton of multiple expansion because you're already at top quartile levels. But that visible earnings growth still powers outperformance relative to the market. So for me, technology still looks like leadership because the fundamentals are still so strong.

HEATHER: So you're bullish on tech still. What else do you like for 2026? What other opportunities do you see out there?

DENISE: Yeah, I've talked about this before. And I think I might have even talked about it last year, which is financials.

HEATHER: Still like financials.

DENISE: Still like financials. And I think it's really interesting when you look at it. So when you look at valuation of financials, and you can look at it back to the '60s, what you can see is that there's been a consistent higher odds of outperformance the cheaper they've gotten. And that's been true in every five-year period, even since the financial crisis.

So as much as it seems like, oh, it's got to be different this time, that valuation threshold has really limited your downside. We are now, as we enter 2026, back down to bottom decile levels. Now, what you see is over the last five years, the stocks have they've outperformed three of those last five years. Financials didn't outperform last year.

But over the last five years, they've actually outperformed, in its entirety, by about 200 basis points. So look, not a lot. It's not like you would say you had to own financials. But there also was limited downside as well. So there are two ways to look at it, being like, eh, it was sort of dead money, just a market performer.

Or maybe it was that valuation threshold was limited downside. So every time you see that bottom decile valuation, you kind have a call option on maybe something goes right for the sector. So I do think that financials, interestingly enough, as we entered 2025, same thing as we enter 2026, I think that valuation support is likely to hold, giving you, hey, we don't know what the catalyst might be, but be open minded. If something goes right, you might have more upside there than you think.

HEATHER: OK, we do have to talk about risks too. So Jurrien, I'll let you be the bearer of bad news here. No, not bad news, so to speak. But, what should investors have in the back of their minds? What should they be keeping an eye on this year? We talked about geopolitics. We talked about AI concentration risk. What's on your radar?

JURRIEN: Yeah, to me, and by saying this, I don't mean to indicate that they are likely to happen. But when I think about what could go wrong, one is obviously, economically the cycle, but I don't really think there's a lot of indication of that. Earnings estimates are increasing. So there's momentum there economically.

Certainly from a policy point of view, it seems like run it hot is like a strategy for the next few years. So I'm not so much worried about an economic contraction or recession. But two things I worry about are concentration risk. Seven stocks are at least a third of the market. They have amplified the return fairly greatly. And history suggests that if the top, let's say, 50 stocks, if they're highly concentrated, as they are now, if they go down, the index is going to go down, even if the majority of the stocks in the index are going up, because the S&P is a cap weighted index.

And so you could be in a fine economy, but if just a handful of multi-trillion dollar stocks decide to go down, you're not going to get a lot for it. And we call that market beta, so the market return. And I'm sure Naveen will talk about this. There are ways of mitigating those risks with diversification, et cetera.

But that's one thing I worry about, that we've kind of front loaded a lot of returns because of this concentration. And that it's been a tailwind. But tailwinds don't always remain tailwinds. So that's one thing.

The other one is interest rate risk, not from the Fed, because the Fed has become more dovish and is likely to become even more dovish if the change of leadership happens the way the market thinks it will. But what happens to the back end of the yield curve, so long-term rates?

So if the Fed were to lean too dovish or the Fed and we'll talk about this in a moment gets sort of fragmented, or the economy runs so hot that inflation starts to re-accelerate, then long rates could rise relative to short rates. And right now, long rates are about 4.15%, very benign, nothing to see here type of thing.

But history shows, the last few years shows, that when yields go to 4.5 on their way to 5, stock markets really starts to pay attention because the risk-free asset, treasuries, are competitive with stocks now. They have about the same yield.

And so if the yield on the safe asset goes up above the yield of the risky asset, the risky asset needs to pay attention and reprice. And so that is another risk. Again, I'm not saying it's imminent, but that is something we've seen play out over the last few years occasionally. And those are the two things that give me some caution about getting too far over our skis, if you will.

HEATHER: Too far over the skis. Something to keep an eye on. Hey, Naveen, how do you and your colleagues think about diversifying against concentration risk like Jurrien teed you up there?

NAVEEN: Yes, there's different kinds of risk. There's concentration risk, the fact that such a big part of the market is the hand of these seven stocks, that's one part of it. The other is like Jurrien outlining, these big picture risks that can affect the broader market.

So I'll approach it a couple of ways. One is at the highest level, how much of your investment dollars do you want to have in the stock market? The rest, you can keep in the bond market or short-term investments. That's probably the baseline way of diversifying away from the risk at the highest level. That's one thing to keep in mind.

But beyond that, a lot of people want to know, well, within my stocks, what could I do? So here's a lot of things we can do, as investors. One, look beyond the technology stocks. Probably the most obvious thing to say, but Denise mentioned financials is an idea she's excited about next year, right?

There's other opportunities out there beyond just technology. Looking at the global market, even though technology stocks had a great run last year, but looking overseas in developed markets like Europe and Canada, we saw utilities, we saw financials do really well last year. We saw materials do really well in emerging markets last year.

Which brings me to my second point is don't just focus on the US. You can look abroad. And last year, international stocks, after a couple of quiet years, outpaced US stocks by more than 15% looking at the major indices for developed and emerging markets versus the S&P 500. So if that trend could continue, that might help these investors balance the risk, not just of those core seven stocks or US stocks, but also bringing in the global marketplace to help balance some of those potential drivers of returns or potential drivers of volatility.

HEATHER: And from what you're seeing, does it seem like international stocks are poised to outperform US again?

NAVEEN: Potentially, yes. We can get to that in a minute. The last thing I want to mention in the diversification story, though, is considering beyond just those traditional investment classes, thinking about things like commodities, real estate stocks, those can be instruments or investments that can do well in a growth economy. And they can help buffer against inflation as well.

And finally, alternatives, these are strategies that are becoming more accessible to investors that can help mitigate risk. They invest in a whole different set of ways. They can weight excuse me invest in areas like commodities or rising and falling interest rates. And that can be a nice way of diversifying away from stock market risk as well. Now, on the international.

HEATHER: Yes, sorry I interrupted your train of thought.

NAVEEN: Not at all. So international stocks, tremendous year last year. Some of the drivers behind that, they had a good recovery economically and earnings wise versus a couple of quiet years. And they were relatively cheap coming into this year as well. So our team actually was leaning more towards international stocks versus US stocks for the better part of the last five or six quarters. That paid off very nicely for our investors.

And in spite of the strong performance they had, the valuations are still very attractive. And they also still have good outlooks for the earnings and economy, like we do here in the US. That is a trend that could absolutely continue in international stocks.

And international, people sometimes conflate the country headline. Well, there's terrorists happening, that must be bad for international. Or I saw something happening in Europe, that must be bad for European stocks. It turns out that markets don't always tie back to those political headlines nearly as much.

Just as one example, the major markets in Europe France, UK, Germany, they all performed extremely well and much better than the US stocks despite some of the challenges we ran into. And emerging markets, countries like Brazil, South Korea that were in all these tariff headlines had tremendous returns last year.

So I think it's important to separate the fundamentals of those individual markets away from some of the headlines that are out there, and not just assume that there's bad international headlines, that must mean bad things for international stocks. Oftentimes, over the long run, they can both play very nicely together, both US and international, and lead to a smoother return for investors over time.

HEATHER: I think that's an important nuance, or maybe just an important theme to think about that. Just because you see bad news in one country doesn't mean that that's not a country you might want to invest stocks in or invest in their stocks.

All right, let's switch gears now. And you had talked about the Fed earlier, Jurrien, and talked about bonds. And we'd like to talk about that with you in a moment, Naveen. But let's dig into what we might expect this year from the Fed and interest rates.

So we saw three interest rate cuts in 2025. But as you mentioned, the Fed will have a new chair this year. Jerome Powell, his leadership will end in May. So how could this leadership change potentially affect monetary policy in 2026, Jurrien?

JURRIEN: Yes, it potentially can, because whoever is going to come in as the new chair, and we don't know who that's going to be, we know who the contenders are, they are likely going to lean dovish because I think those candidates are all sort of in line with the US administration and what the Treasury Department wants to accomplish.

And so rates will probably stay low. And again, that's part of the run it hot theme for 2026 and beyond. But that doesn't mean that everyone on the Fed is going to go along with that. And I think what we're already starting to see a little bit is that you may end up with two separate camps.

You have the camp of the status quo, sort of PhD academics at the Fed who want to look at things like the Taylor rule and the balance between inflation, and growth, and calibrate a monetary policy on that basis. And then you might have a new camp that are more politically aligned with what the administration wants to do and say, whatever it is, we want to cut rates, and we want to goose the economy.

And so you might see a more fragmented Fed, which would be the first time we've seen that in many decades. I mean, Alan Greenspan, the maestro, Bernanke, Yellen, Powell, they've all run a fairly tight ship where you might get a dissent or two once in a while. But generally speaking, whatever the chair wants is what happens to monetary policy.

And that may still be the case going forward. But we might see a fracture of instead of one or two dissents, you might see five or six. And it'll be like a Supreme Court kind of judgment, where it is not at all unanimous. And I don't know what that's going to mean specifically, but for a Fed that's always been very independent, and very monolithic, and very powerful, of course, that's something that we should think about.

HEATHER: OK, well, you know who is always watching interest rates besides you guys is the bond market. And there's been drivers of interest rate volatility in recent years, the Fed, federal deficit, inflation that can continue to be top of mind for 2026. So Naveen, where are you seeing bond opportunities in 2026?

NAVEEN: Yeah, before we get there, so last year, bonds actually had a very strong year. The bond benchmark most of us look at returned more than 7% last year, which is exceptionally well for a bond investment, which is relatively lower risk compared to stocks. So I want to put that out there.

And some of the trends that were in place last year, I think could continue. So we already have yields that are much healthier than they were even just two, three, four years ago. So as rates have risen before the latest rate cuts, we have seen bond yields rise. And that can deliver a nice income for investors.

Now, my team typically uses active managers within our bond investments. These are mutual fund managers that are picking and choosing between different types of bonds they prefer versus the ones they want to lean away from. And what they're gravitating to towards right now is mortgage-backed securities. Now, for some people, that brings back memories of 2008. That was almost 20 years ago, by the way.

HEATHER: It doesn't feel like it.

NAVEEN: Doesn't feel like it. That was almost 20 years ago. And since then, investors have learned a lot about investing in mortgages. It turns out investment grade mortgages like the ones I'm talking about have been tremendous investments for investors. They did better than treasuries and corporates last year. That could continue into this year.

So we're not talking about the subprime stuff people are scared of. And the thing that they're leaning away from right now is more the Treasury part of the market. So treasuries are a phenomenal buffer if you get market volatility or other turbulence in the market.

But if you feel like the economy and earnings outlook is pretty positive, maybe you have better opportunities in other parts of the market, whether it's corporate bonds or mortgage bonds. So that's how these managers are set up.

And for the bond geeks out there like myself and Jurrien, if you look a little bit deeper, what kind of maturity they're looking at, duration they're looking at, look at the intermediate part of the bond market. That's the 5 to 10 year range. The shorter end, the Fed is cutting rates maybe. So maybe those yields are going to fall, not as attractive.

And on the higher end, Jurrien touched on this earlier, if those higher end rates go up, that can mean a lot of volatility in those longer duration bonds. So for bond geeks out there, the team that we're working with, they tend to focus more on the middle part of the curve.

HEATHER: The Goldilocks part.

NAVEEN: Goldilocks part of the curve. Well said.

HEATHER: Speaking of Goldilocks, terrible segue there, but let's talk about gold, because Jurrien has written a lot this year about the uniqueness of 2025. And one of the unique things of 2025 was the decoupling of gold and equities, Jurrien, which obviously means they both went up in tandem, rather than one going up and one going down. So that led to record-setting gold prices this year. What sparked that gold rush, Jurrien? And do you see that trend continuing?

JURRIEN: Yeah, and just as a backdrop, when you look at asset classes that are uncorrelated to either stocks or bonds, gold is one of them. Commodities in general are one of them as well. And so for gold to be up 65% last year when the S&P was up 18% and the bond market aggregate was up 7% is remarkable.

And last year, other than Bitcoin, basically everything went up. So it was a very good year for diversification. So there's a lot of things going on with gold. One of them is, again, as we mentioned earlier in the show, this geopolitical recalibration from a unipolar world order to a multipolar world order.

You're seeing central banks buy gold bullion, I think, as a diversification against the dollar standard. Not that people are thinking the dollar is not going to be a viable currency or even the global reserve currency, but if you think about other parts of the world and the somewhat adversarial nature that has been in play between the US, and China, and certainly Russia, and maybe a few other countries, those countries are trying to basically buffer their own reserve assets.

And it's interesting that gold is now the second largest reserve asset behind the dollar, even above the euro now. So I think of this as a recalibration. And of course, regular investors jump on the bandwagon. There's a sense about what we call fiscal dominance, where again, the run it hot strategy of fiscal deficits, a lot of growth, and then low rates at the same time might, again, bring back inflation. Or it might ramp up the money supply. And investors want to find assets that are a hedge against that if purchasing power does end up going down. And of course, gold is front and center to that.

I think it goes even a little bit broader than that. And again, we talked about commodities earlier. Commodities is the one asset class, as a general asset class, and it tends to be energy heavy, that really hasn't done much of anything for some time. And it is one of the pure diversifiers in terms of correlation.

And so maybe the gold trade broadens out to commodities in general. And actually, even today, nickel is up 10%. And so you're starting to see that copper is now strong. Silver is at 75. And so I think that's a theme that we're probably going to keep seeing.

HEATHER: Something to keep seeing in 2026. And just like gold, Bitcoin also had a great year as well, primarily due to deregulation in the industry, crypto industry. But that bullish sentiment has waned as of late. So just would love to get your thoughts on Bitcoin and crypto in general, how you're viewing it these days, and the recent volatility and what you might expect for this year.

JURRIEN: So Bitcoin started the year very strong. Obviously, it was part of the election, the more crypto friendly outcome of the election. So certainly, crypto in general really ramped up. And we had some of this financial engineering of what we call Bitcoin Treasury companies, buying Bitcoin, issuing shares. And that was really part of the momentum that we saw for a good chunk of the year.

And then Bitcoin peaked at $126,000 in October. And then it fell. It went to $80,000. Today, it's around $93,000. My sense is that Bitcoin might take a rest next year. We have this four year halving cycle that we don't have time to get into. But nothing goes up in a straight line forever. And I think Bitcoin might just take some time off.

And part of it, some of the thunder in Bitcoin has been stolen by what we call stablecoins, which are a no vol version of crypto because of the GENIUS Act and what that means for crypto in general. And so I think there's just a little bit of a reshuffling. I'm still bullish for the long term. But it outperformed gold for a long time. And this year was a year of mean reversion, where Bitcoin ended up down, I think, 6% or 7%, gold up 65%

HEATHER: What a year 2025 was, for sure. And it turned out to be, like we talked about today, a great year for most investors. And it does look like, as we talked about today, 2026 could also be another strong year. But I feel like we would be remiss without acknowledging that there were a lot of people who were not in the game this year, were not involved in the markets this year, they were still on the sidelines in cash for whatever reason.

And they missed out on those gains. They're probably kicking themselves. And they certainly don't want to miss out on any potential gains in 2026. So I guess I would ask you, Naveen, if you could talk about this, how you and your team are helping investors consider what to do with cash, who may still have some cash to play around with.

NAVEEN: Yeah, I work very closely with the advisors here at Fidelity and helping them discuss these topics with their clients. So some of the obstacles they run into are clients are hesitant. They always feel like the markets are an all-time high. It feels scary to get invested. The valuations are high. Did I miss it?

But what we found time and again getting into the market seems to be the hardest part of it. And once you're in, time is on your side. Over time, things tend to work out. Over 5, 10, 20 year cycles, the growth is typically there historically to support the investment decision.

Now, the other challenge for investors is how much should I put into the market? That's going to be different for everybody, depending on your goal, your risk tolerance, your personal preferences, your family situation. It's something worth researching, whether you do it on your own, maybe some tools on our website, or you talk to a financial professional, come up with an idea of how much you want to have in stocks, and bonds, and other investments.

Once that's in place, I'll recap what we covered today. So it's about being diversified, not just focusing on a handful of names you see in the news, but thinking more broadly than that for different parts of your portfolio. Maybe having some individual names is exciting. And maybe it'll pay off in the long run. But rounding that out with other investments in the US stocks space, mid and small sized companies, go overseas, look at international stocks as well. They can have really good years here and there. And that can help balance some of the volatility in the US stock market.

And then beyond just your typical stocks, there's always the bond market. We touched on how bonds can provide a steadier return. When stocks are volatile, historically, they better maintain their value or even raise in value when stocks might be choppy.

And lastly, we touched on some topics today maybe are not as familiar for many investors, things like commodities, or real estate, or Bitcoin, or alternatives. For all of those, worth considering, but also worth doing a lot of research to get really comfortable and familiar with those. And that's a space where perhaps a financial professional might be helpful with some of those decisions to be had.

HEATHER: But be well rounded. And for those people who say when is the right time to get in, it's now?

NAVEEN: Generally, yes. Sooner's better than later, usually, when it comes to investing.

HEATHER: You certainly don't want to be looking back at the year and say, I missed a whole year. All right, well, we are almost out of time, but we always like to end with a lightning round, and have a little bit of fun here, and hopefully get your quick, unfiltered, and highest conviction ideas as well.

So start with Jurrien, and we'll go down the line. First question, what surprised you most about 2025, Jurrien?

JURRIEN: I would say, I've been through 12 cycles, but still the rapidity of the plot twists is still something that gives me pause. And to Naveen's point, you got to be in. Because if you try to market time these things, it's impossible. And then you just can't compound if you're on the sidelines.

DENISE: I would say the comeback from you called it the tariff tantrum, which was, I think, the quickest from an all-time high to, let's call it a bear market, back to an all-time high, fastest ever. So that was the anomaly.

HEATHER: Remarkable.

NAVEEN: I'll go to the resiliency of the international market. So coming into the year, my team was expecting good things from international. But by outperforming the S&P by 15 percentage points, that was not what we had in mind. So the volatility the tariffs, the tariff headlines, many presumed tougher international. But no, they bounced back and even stronger than US stocks this year.

HEATHER: How about investor takeaways for 2025? What do you think, Jurrien?

JURRIEN: Earnings drive the bus. And earnings growth globally has been strong. And as long as that's the case, I think generally, you want to be on that side of the market. And so the earnings estimates, Denise looks at this all the time, whether they're being raised or not, and for what sector and for how many stocks, I think is what will drive the markets forward.

DENISE: Yeah, I think it was an interesting fine point on the historical data of uncertainty. So more often than not, the way you measure uncertainty, high uncertainty is actually more often a buying spot for equities rather than a selling spot, because by the time you have those uncertain environments, most of it's already priced in. So I think 2025 put a fine point on that.

NAVEEN: And I'd say related to both of those points, I think it's just a reminder that this last year showed us the fundamentals, the economy, the earnings, they matter more than the near-term headlines. Even though near-term headlines can lead to things like short bear markets, over the long run, over time, it is the earnings and the economy story more than anything else.

HEATHER: It is the fundamentals. OK, biggest question mark in your mind for 2026? What do you think?

JURRIEN: Again, it's interest rate risk, the term premium, which is the risk premium that bond investors want to earn for holding long bonds. Will that dragon come back? And it's come back occasionally. And so that, to me, is probably the top of my list for things that I'm watching that could upset this applecart.

DENISE: How much inflation will decelerate. I mean, we've seen goods bump up given the tariffs. But we're lapping those. And service inflation has actually continued to decelerate. So maybe there's a chance that it decelerates more than people expect, which allows the Fed to cut for no other agenda other than the fact that they can continue to renormalize rates.

HEATHER: And not because they have to.

DENISE: Correct.

HEATHER: OK, Naveen.

NAVEEN: And for me, it's the job market. The first question I talked about with you. If the job market stabilizes or starts to improve, that could be even stronger tailwind for the US economy.

HEATHER: OK, last question. Can you believe we're on the last question? What are you most excited about for 2026? Jurrien.

JURRIEN: Doing the show again a year from now.

HEATHER: Yes, I love it.

JURRIEN: I'm very excited about the international markets coming back. They've underperformed the US for 10, 15 years. The developed market index, the IFA index is now on a run, overcoming 15 years of sideways action. The fundamentals are strong. The earnings growth is there.

They're paying more of those earnings out back to investors via dividends and buybacks. And their valuations are like a 16 PE versus a 25 for the US. And at a time when there's concentration risk, it's nice to have good alternatives. And so I'm very excited about that.

DENISE: I would say durable earnings growth. I mean, the interesting part to me is if you ask me statistically what concerns you, it's usually really good things concern me, really high earnings growth, really high economic growth because Jurrien pointed this out earlier, usually you have that boom that ends in a bust.

This kind of grind it out, durable earnings growth that's not too strong, not too weak, kind of 10% to 12%, it's actually the sweet spot for equities, and in some ways, justifies the valuation much more than you would think as an investor. Current valuations don't relate as cleanly as you think to next year's earnings growth. They relate to the durability of that earnings growth in the length of the economic cycle.

So the more durable earnings growth is, we discussed the reasons from the tax cut to the CapEx cycle that usually leads to that pull-through when corporate America spends. Then they tend to incite demand. So that durability justifies the valuations and continues the secular bull market.

HEATHER: Right on, Denise. All right, Naveen.

NAVEEN: She had a good Goldilocks answer there.

HEATHER: Yeah, she had that sweet spot. We've talked about sweet spots a lot.

NAVEEN: So three things for me. I'm excited about CapEx, Denise's point. I'm excited about purple pants from Jurrien. And I'm excited about ongoing earnings and economic expansion. I think that's going to be a key driver next year.

HEATHER: I hope everybody has gotten a shot gotten a peek at your purple pants. I hope they've been able to get that in the shot today. Well, a nice way to end things, folks. Really appreciate your time and just such a fantastic comprehensive discussion.

And we were right on time, too, 45 minutes. So you guys really are efficient with your answers as well. If you would like to hear more from Jurrien, Denise, and Naveen, and our other thought leaders about what they are watching in 2026, please visit Fidelity's 2026 investing outlook.

Just go to Fidelity.com/outlook. And there, you're going to find free expert insights, analysis, and further guidance on the year ahead. Also, just a reminder that Fidelity is here to help. If you have any questions about whether you are prepared for what may lie ahead, you can call us, you can download our app, or you can visit our website to talk about your plan.

Just before we go, too, quick plug, reminder that Market Sense is a weekly show. Yay, team. So if you enjoyed our discussion today, you can catch us live every Tuesday at 2:00 Eastern, with replays always available on Fidelity.com/marketsense and Fidelity's YouTube channel, as well as wherever you get your podcasts.

So on behalf of Jurrien Timmer, Denise Chisholm, and Naveen Malwal, thank you so much for your time. Thanks for the pleasure of your time. We hope everybody has a great first half of the year. And we'll see you back, hopefully, in June for the mid-year outlook. Take care.

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