

# *Fidelity Viewpoints®: Market Sense*

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## TRANSCRIPT

### SPEAKERS:

Heather Hegedus Jurrien Timmer Naveen Malwal

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**HEATHER HEGEDUS:** Hi there. Thank you so much for joining us for *Market Sense*. I'm Heather Hegedus with Fidelity. And welcome to the first full week of August everybody. Historically, August can be a volatile month for the markets. What a pivotal day? Friday was the first day of August. That surprisingly weak jobs report, led to a shakeup at the Bureau of Labor statistics, and it significantly increased predictions of a Fed cut in September. That, combined with a revamped tariff plan and more tariffs going into effect this week, have been weighing on the markets over concerns the economy may be slowing.

However, on the flip side of things, we've also been digesting some pretty strong corporate earnings. So plenty to talk about today, as usual, and to discuss what this might mean for the bigger picture. We are joined today, as we often are, by Jurrien Timmer, who is Fidelity's Director of Global Macro. Also, despite concerns about tariffs and trade deals, the stock market was hitting fresh records just last week. There are questions now, though, about where do we go from here?

So to join Jurrien in a discussion about this and what it might mean for investors, we're pleased to be joined today, as we often are, by Naveen Malwal, who is a CFA charterholder and institutional portfolio manager, and his team manages millions of client accounts here at Fidelity. Well, thank you both for joining us, Naveen and Jurrien. And I remember last week talking about—this time last week on Tuesday, saying this is going to be a big week for the markets. And, boy, was last week a big week, Naveen.

**NAVEEN MALWAL:** Yes, it was good to be here.

**JURRIEN TIMMER:** Nice to see you both. Welcome back, Naveen.

**NAVEEN:** Thank you.



**HEATHER:** And, Jurrien, I have to say congratulations before we start the show because you just completed your 27 bike ride in the Pan-Mass Challenge for cancer research and treatment over the weekend. For those of you watching our show, we know we have folks watching our show all over the country. If you're not familiar with the Pan-Mass Challenge, it's a bike ride across Massachusetts. As long or as short as you want to make it. But I hope you had a chance to recover, Jurrien, because we've got a lot to dive into today.

**JURRIEN:** Yeah, 27 years. And I'm still physically, I think, pretty strong. But it's the joints, the knees, the backs, that after a full day of riding, it's like, oh my God. I am starting to feel my age in that sense.

**HEATHER:** You rode about 85 miles and you said, I only rode 85 miles.

**JURRIEN:** Yeah, I usually do two days, but this year I had to hop on a plane at 8:00 on Monday to go to California, where I am now, and I did not want to sit in an airplane seat for six hours after 165 miles. So I cheated this year a little bit.

**HEATHER:** Well, you're going to need your energy because we have a lot to talk about. So I'd love to start with you by having you catch us up on where we are right now. Because as I said, so much has changed over the past few days since that surprising and disappointing jobs report that came out Friday, which included some significant revisions to payrolls. And we learned job growth has slowed to levels not seen since the pandemic, Jurrien. So first of all, catch us up on where we are. Give us your take on what's happening here, and how bad of a warning sign do you think this is, Jurrien.

**JURRIEN:** Yes, so Friday's, of course, big news was the jobs report came in softer than expected. It still showed growth, but not as much as expected. And more importantly, the last few months were revised lower. I do have to give you a caveat, though, that the non-farm payrolls report, which is what this chart is showing, remember that the labor force in the US is, I think, it's like 170 million people.

And so the jobs report comes out on the first Friday of the month after the month that is covered. So in this case, it was August 1. So literally the day after the month end, they have to come up with an estimate of how many of the 170 million people are gaining or losing jobs. So you imagine statistically how difficult that is because it's really you're just taking a little sample of a very large pool, and you're doing it in very short order.

And I mentioned that just to say that revisions are very common because you just cannot get an accurate sense so short taking such a small sample. Again, we're talking about 70,000 people out of 170 million in the labor force. So I just throw that in as a caveat that we can't hang on too much on these numbers. But what it shows is that the supply of labor and the demand for labor are pretty well in balance.

So you remember, during COVID, of course, the economy shut down, people left the labor force, Boomers retired, the borders were closed, and then the economy reopened fairly quickly. And there was not enough labor to satisfy that reopening. And we got into a very tight labor market. We all remember those days. There were like two job openings for every job seeker. And since 2021 or so, that number has been coming down, which is good because it's restoring balance to the labor market.

And despite the numbers of the last few months, we're still in a sense of balance. So I am not too alarmed at all about these numbers, even though certainly they are headline grabbing as they were on Friday.

**HEATHER:** There's a sell off. But yesterday we saw recovery from that sell off. But the bottom line was with those numbers at least, Jurrien, that the job market is considerably worse than previously thought. However, there are other areas in which the economy appears to still be showing strength. Would you agree with that quarter two GDP growth that came in above expectations? Earnings season, as you've been telling us, has actually been quite strong. Can you put this all together for us, Jurrien? And what are these signals telling us? And are they mixed signals?

**JURRIEN:** Yeah, so I wouldn't say the jobs market is considerably worse. It's not as good as we thought it was, but it's not we're seeing mass layoffs or the unemployment rate spiking. It's at 4.2%, which is still very, very low historically. GDP numbers are good. The forecast have bounced since the tariff tantrum in April. And the earnings numbers have bounced quite a bit as well. So the corporate sector is pretty strong.

The household sector, even with muted job growth, is still in a pretty good place. So we have basically full employment. Most Americans who want to work are working. Their wages on average are rising faster than the inflation rate. And the debt burden for households is actually quite manageable. So overall, I think unless companies start really laying off people, I think the economy is in OK shape. But as always, there are many crosscurrents.

You have tariffs on one side. You have the fiscal stimulus from the big beautiful bill. On the other, which one wins? What other factors play in? But when you put them all together, it's a pretty stable situation right now.

**HEATHER:** OK situation. And we'll get into some of those crosscurrents in a little bit. Hopefully in this conversation, Jurrien. But I want to bring Naveen in now. Naveen, I'm wondering how you and your team are thinking about all of this. And if the economy truly is slowing, how could that affect investors asset allocation?

**NAVEEN:** Yeah, so coming into this year, my team which manages, as you mentioned earlier, accounts for millions of clients at Fidelity. Our view was we might see some moderating growth this year. So that doesn't necessarily mean a contraction of the economy. It just means you grow at a more gradual pace. So I think we're seeing some of that. The job numbers is a good example where the job growth is still happening, just not as much as it was, say, a few quarters ago or last year.

Same thing with earnings. Earnings are still growing, but not maybe as fast as people thought they might. Towards the end of last year, when we started this year, we had a lot of policy uncertainty, some market volatility. So given what was taking place, our team starting last year, we're starting to take some steps to manage risk within our client accounts. And there's lots of ways of managing risk. I'll share a few with you.

So at a high level with our portfolios, most of our clients invest in diversified portfolios of stocks and bonds and other investments. One thing we did at a high level is we said, well, if the economy is growing but more moderately, maybe we don't need to lean too much into stocks. What that means as an example is, if a client's long-term target is roughly 60% stocks, 40% bonds, keep it around that level. No need to go to 62% or 65% because while the economy is growing, there are also question marks. That's one thing we did.

Another thing we considered doing and started putting into place last quarter, excuse me, last year and over the last few quarters, is moving more towards international stocks and away from US. And that's despite the historically strong run the US have for a few years versus international coming into the end of 2024. And there our reasoning was the valuations and the earnings story seemed to be improving for international. But for the US, while they were still pretty good, we're just leveling off. So the earnings momentum felt more attractive for international stocks and they were more cheap looking at things like price to earnings ratio. So that's another step we took.

And the last thing I'll share is we looked for other ways of diversifying the portfolio beyond just stocks and bonds by incorporating investments in areas like commodities, real estate, or alternatives, or even thinking about outside of investment grade bonds, adding things like tips which are inflation protected bonds or high yield bonds. We aimed to get our portfolios to be more resilient against potential volatility versus stock market volatility versus geopolitical risk, even inflation risk.

And we saw the results of that back in April when markets were selling off. Many of these other investments did pretty well. So an investor with a mix of stocks and many other investments actually experienced much less volatility. And that's the goal of having that diversification in there. It doesn't always work, but ideally, if the stock market is going to sell off, that portfolio may benefit from resilience in other parts of the portfolio.

**HEATHER:** All right, well, I was just talking about what a busy week it was last week. Just to refresh everybody's memory because so much happened last week. It was also last week that we hit the last new all time high for the markets. They've been hitting high after high lately. The global markets just to achieve four consecutive months of gains. We did have that rough end of the stock market last week after the jobs report. But, Jurrien, I know you've noted some parallels between this market right now and 1999, which was, of course, the lead up to the dot-com bust. Do you think this rally still has more runway?

**JURRIEN:** I do. And in hindsight, I think I was too cautious back in April as many, many people were after that tariff tantrum. So the cyclical bull market that we are clearly still in, despite that 21% markdown in April, started in October of 2022. That means that the bull market is now—what is that? 34 months old or something like that. And has produced an 84% gain. The median bull market going back 100 years has been 30 months long and for 90% gain.

So we're in the ballpark for a mature bull market. So the good news is that earnings are re-accelerating higher. So at the beginning of the year analysts were expecting 12.5% earnings growth for 2025. Then in April, we had the tariff tantrum. Those earnings numbers got marked down for understandable reasons because tariffs are an import tax and someone has to pay for it and it could be the companies.

But then we got the big beautiful bill. And the tariffs story has been—I wouldn't say it's on the back burner, but it has not materialized in the way that I think the worst case scenario implied back in April. And so the earnings growth number, which went from 12 and 1/2 to 7, is now back at 9. And so you have an earnings re-acceleration. So that of course, is fuel for a bull market. I mean, bull markets are driven by rising earnings. And then the question is, what does the valuation side contribute or offset?

So the years 1 and 2, so 2023 and 2024, both saw meaningful increases in valuations which act as an amplifier to earnings growth. So far this year the valuation has been neither here nor there. And I suspect that will continue. So I think if the bull market continues, and certainly it seems like it is for now, it will have to be earnings that carry the day. And right now they are.

**HEATHER:** Every time you talk about a maturing bull market, I think of a graying bull with maybe some reading glasses like we were talking about before the show started. I get this image of an aging bull. All right, what about valuations, Naveen? Are stocks feeling overpriced at this point to you? How does your team consider these valuations in your investment decisions?

**NAVEEN:** So valuations are part of the investment decision process for us. But it's not the major thing we focus on. Primarily we focus on the outlook for economic growth and what's happening with the earnings. That has traditionally been the bigger driver of stock and market performance, which Jurrien just alluded to. But valuations can be helpful in terms of determining where to put our investments.

So this year we did see that sell off back in April. And back then, we saw valuations for both US and international stocks fall. And there were attractive bargains to be had across the world. But it was a tough time to invest. A lot of people were nervous about what might happen with the economy. You fast forward to now and the US market is again making new all time highs. As you said, Heather, international stocks are rallying. So the valuations are back to where they were at the start of the year.

And what that looks like is the US valuations are now higher than their long-term average, whereas international stock valuations are lower than the US valuations. So thinking about things like forward price to earnings ratios. And they're also in line with their respective long-term averages. So just looking at those numbers it may be tempting to think about maybe international non US stocks having a bigger runway for potential returns going forward.

So it argues for diversification perhaps across the US and international. But it doesn't suggest—some people think of high valuations as being a bad thing or a scary thing. And they might assume that stock markets then are due for a correction. Historically, what has happened instead is high valuations have typically led to more modest, positive performance going forward.

So the idea that high PE means a crash is going to happen has not played out historically. Sure, it has happened sometimes on occasion, but typically what you get is just more moderate returns, still positive returns. So we might see based on just valuations alone looking at US versus international, perhaps international could continue to outpace us looking at PE ratios.

However, that's not the whole picture. It comes down to what stocks are in your market in terms of their growth opportunity? Are they focused in big growth areas like technology? Are they focus more on older industries? Are they tied to imports and exports? There's a lot of variables involved beyond just price to earnings ratios, but that's how we think about it as part of our consideration, but not a major driver of the decisions we take.

**HEATHER:** I think that's really helpful that your perspective, the high valuations does not necessarily mean we're due for a correction and important for investors to keep in mind. Jurrien, let's talk about the Fed and what the Fed is juggling here. So what a week we had? We also had the FOMC meeting last week, the July meeting. And Chair Powell said at that meeting, at the conclusion of it, no decision had been made yet regarding a possible rate cut come September.

But then we got that crucial new data point that came in with the jobs report. And also inflation has ticked up. We got that last week as well in the most recent core PCE reading. Those decisions came in after the Fed had already met and after it had decided to hold rates steady. Are these competing readings in your mind and where do they leave the Fed, Jurrien?

**JURRIEN:** Yeah, so we did have the FOMC. And then right after that, the nonfarm payroll report, which certainly poured some cold water on the economic outlook, although as we mentioned earlier, I still think the jobs market is fairly balanced. But if you think about Fed policy in a rules-based way. So there's a neutral rate. So let's say 1% plus the inflation rate is neutral. So inflation is around 2.7, 2.8. 100 basis points above that is about 3 and 3/4 is neutral. The Fed is at 4 and 3/8.

So the Fed has room to move lower to get to a neutral policy, let's say, 2 to 3 rate cuts. And then it's a question of OK does inflation move in the direction that the Fed wants? So inflation is like 2.7, 2.8. The Fed's target is 2. So it's still above although not as much above as it used to be. And then on the growth side is where is the jobless rate versus what is considered a normal natural rate of unemployment? And we're at 4.2% and the natural rate is about 4.2%.

So there is not really a lot of change there. So you can argue that the Fed should be at neutral and not much higher than that. And so therefore the Fed has room to cut. I think it was holding off because it wanted to make sure that inflation was not going to get boosted by the tariff situation. And while the jobs market was still pretty strong. Now it turns out that it's not as strong as we thought. So I think that does give license for the Fed to start moving. And the market is now fully expecting a rate cut in September.

And so I think that's a good base case. But again, when you think about the bigger picture and would the Fed go further than to neutral like to 3% or 2%, it's really hard to see that barring a recession. And so we're really talking about a couple of rate cuts from 4 and 3/8 to let's say, 3 and 1/2.

I don't know that that's really going to move the needle for the economy or even the government's funding needs. So I don't think it matters that much. I think what happens at the long end of what we call the yield curve, so long-term rates is far more important. And right now the 10 year yield has dropped to 4.2%. So that eases some pressure on the economy as well. So I think overall, we're not in a bad place here.

**HEATHER:** OK, I like what I'm hearing, Jurrien, now. And also for the first time since 1993, last week, multiple governors dissented after the Fed's decision, I should mention, and we're going to talk more about the Fed next week here. But I do want to move on to tariffs. One of the—I think you called them crosswinds, Jurrien. And I know, Naveen, you and your team have been watching tariffs closely all year.

So last Friday, August 1 was the tariff deadline. The president laid out his latest framework with global tariffs ranging from 10% to 41% But that came with another seven day delay, which expires just a couple of days from now this Thursday. Can you explain where things stand right now, and are there any other areas that could be impacted by these tariffs more than others?



**NAVEEN:** Yes, they can be. And I think what you just outlined is the challenge here for investors that the dates keep moving, the numbers keep moving. So for now we have agreements between Europe and the US, Japan and the US, South Korea that are around 15%, but many other countries like Canada, Mexico, and China. We still haven't figured out what the tariff level is going to be. It's still in flux. Other countries have higher tariffs on them, like India, Brazil, Switzerland. They're trying to negotiate and other countries haven't even come close to getting something resolved.

So still a lot more to come on this. I think a number of us maybe are feeling frustrated hearing about tariffs all the time and talking about it. But we're going to potentially see more tariff adjustments going forward, hopefully lower on most countries. But we'll have to wait and see. And there's always the chance that new tariffs may come into place. There may be a change of opinions about countries, for example, or there's been mention of perhaps tariffs on pharmaceuticals or parts of the technology space as well.

So this is an area that can take up a lot of newsprint. But also it is important to follow for direct impacts to companies, countries, et cetera. A team like ours does spend a good amount of time researching this and devoting our analysis on this. Doing it on your own can be challenging, but if you are doing it on your own, stay on top of it. Don't get bored. Unfortunately, it can be sometimes dry material, but it can have some impact on investment decisions.

**JURRIEN:** Jurrien, we haven't talked much about earnings yet. Coming off a really strong earnings season. So we haven't really seen these tariffs showing up yet in most companies bottom lines from the earnings reports we're getting. Do you think earnings can keep growing at this level though as these new tariffs go into effect? So they are growing and they are re-accelerating. And again, think of it as this way, markets are always in price discovery. Everything is always driven by what is expected.

And at the beginning in the year, investors are very optimistic about earnings. And then in April they became a lot less optimistic. And earnings growth numbers were marked down. And now second quarter earnings season has been very strong and they're getting marked back up. And so we're in the middle of where we started and where we were in April. But the earnings numbers are good. The margin story is high. And again, as Naveen said, it's crosscurrents of how do you measure one versus the other?

Tariffs, obviously, are a cost either to the company or to a consumer. And so someone has to pay. But on the other side, we have this massive fiscal policy of the big beautiful bill with a lot of very favorable corporate accounting rules. And so that clearly is boosting. And of course, we have the whole AI thing, which is also really showing it's benefit. So it's always a mixture and it's hard to pinpoint exactly one thing of what's driving it. But by all means the earnings story is positive, and that should continue to anchor this market, at least to some degree.



**HEATHER:** Fantastic. All right, let's talk about the tariff impact on consumers and inflation as well. Naveen, can you lay out for us what we are already seeing in terms of tariffs related inflation and what impact you think might still lie ahead, and how long it might take for us to see the full effects of these tariffs?

**NAVEEN:** Yeah, so the short answer is we haven't seen much of an impact yet. Perhaps the most recent inflation reading did show a little pickup in goods inflation. So maybe we're starting to see it. But many companies have been able to hold off on raising prices until now, waiting for some more clarity on tariffs. Some tariffs were delayed also from different countries. So we may start to see more of the impact coming up in the coming months and quarters.

And our Asset Allocation Research team at Fidelity looks at inflation really closely. And their view is you may see inflation go up by maybe a half a percentage point or a full percentage point, a bit more than that. We'll have to see where it goes. But that's the range they're thinking about as a possibility. So that is going to potentially impact the consumer and businesses to some degree.

Now for them, they take into account the potential inflation impact and look at the overall economy. Their belief is the economy may grow at a more moderate pace because of inflation. But the Inflation reduction might be, excuse me, the growth reduction on gross domestic product might be around the half percentage point or one percentage point.

And right now economy's been growing about two percentage points 2 and 1/2 percentage points. So it's enough to lead to slower but still positive growth. It doesn't lead to negative growth on its own. But as Jurrien just mentioned, lots of moving parts to all these stories. And that's just the tariff angle. We'll have to all wait and see what else comes into play over the coming quarters that can affect inflation and economic growth.

**HEATHER:** Lots of moving parts, to be sure. All right, we're up against the clock. Let's do a quick Timmer's Take to get Jurrien's take on what he's watching this week. Jurrien, hopefully a quieter week than last week.

**JURRIEN:** I think it will be. So we have, earnings season clearly has been a success. Most companies have now reported. So we have that—we've had the Fed meeting. We have a sense of where that's going. So right now it's really just reading the tea leaves of whether this slowdown that seems to be happening in the economy remains just a slowdown or become something worse. And so we'll have to look at the economic data and the market's perception of that. But other than that I think we've just hit a peak week. And hopefully we can all spend some time on the beach instead.

**HEATHER:** I love it. Coming from somebody reporting to us from California today. All right, Jurrien and Naveen, thank you so much for your insights and analysis on questions that we know are on the top of the minds of our viewers right now. And for everybody out there who

is watching and listening, don't forget you can bookmark [Fidelity.com/MarketVolatility](https://www.fidelity.com/MarketVolatility). That's a great place to go when there's breaking economic and market news to find the latest articles from our Fidelity Viewpoints team of writers. You can also sign up for the viewpoints newsletter there and find a link to our most recent *Market Sense* episodes.

And thank you for sending in your questions there too. When you're registering on our website there, we read all of your questions and try to incorporate them into future shows like we did today. On behalf of Jurrien and Naveen, I'm Heather Hegedus. Hope you guys you get to take some time to go to the beach or do whatever it is that you need to do to relax, and we will see you back here next week when the plan topic is talking about the Fed and what happens when the Fed might cut. What impact that might have on the markets? Remember, we're on live Tuesdays at 2:00 Eastern. Take care everybody.

<sup>1</sup>Bloomberg: 08/01/25: [https://www.bloomberg.com/news/articles/2025-08-01/trump-says-he-ll-fire-labor-statistics-head-after-weak-jobs-data?utm\\_campaign=pol&utm\\_medium=bd&utm\\_source=applenews](https://www.bloomberg.com/news/articles/2025-08-01/trump-says-he-ll-fire-labor-statistics-head-after-weak-jobs-data?utm_campaign=pol&utm_medium=bd&utm_source=applenews)

<sup>2</sup>Yahoo Finance: <https://finance.yahoo.com/news/us-economy-grows-at-3-in-q2-rebounding-from-first-pullback-in-3-years-123438673.html?guccounter=1>

<sup>3</sup>Bloomberg: 07/30/25: <https://www.bloomberg.com/news/articles/2025-07-30/global-stock-rally-faces-fed-reality-check-after-trade-optimism>

<sup>4</sup>Yahoo Finance: <https://finance.yahoo.com/quote/%5EGSPC/history/>

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