Fidelity Viewpoints®: Market Sense

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TRANSCRIPT

SPEAKERS:

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HEATHER HEGEDUS: Hi, everybody. Thank you so much for tuning in for another episode of *Market Sense*. I'm Heather Hegedus with Fidelity. So the US and Iran are continuing negotiations right now toward a broader peace deal following last week's interim agreement. And although the talks still remain fragile, energy markets have already reacted, with Brent crude slipping back below $80 a barrel for the first time since the conflict began in March.

Also last week, we had our first Fed meeting with new Fed Chair Kevin Warsh, of course, so plenty to talk about today. But also every week, you submit questions when you register to watch our show on Fidelity.com or through our live chat during the show. So we wanted to dedicate this show to you and all of those questions that you send in every week. We really do read all of them. And we are thrilled today to have Naveen Malwal here today. He's a CFA charterholder and an Institutional Portfolio Manager for Strategic Advisors here at Fidelity, which is an investment management firm that manages millions of clients' accounts.

Also, to help us field some of those questions, because we do have a lot of them—she fields these questions on a daily basis in her investment center. We are excited to welcome back Maura Clow. She's a vice president here at Fidelity and a financial consultant in the Boston area. Great to have both of you here. You're both in customer-facing roles, so I can't think of two better people to be on this show today. And, Maura, good to see you.

MAURA CLOW: Thanks for having me.

NAVEEN MALWAL: Yes, it's good to be here.

HEATHER: With that, today is Tuesday, June 23. And before we get to the viewer questions, just start with one quick headline question for you, Naveen. So the peace negotiations in Iran, we know the markets are pricing in a swift resolution now. I mentioned the price of crude oil has come down. But oil inventories are down to critical lows now. So I guess, a big question that investors might be wondering is, is that a risk?

NAVEEN: There is some risk here. So I think the market is relieved that perhaps things are not as tense as they were a few months ago. And we've seen the markets respond generally positively. Stocks have been up. Oil prices are down, as you mentioned, Heather. Yet, we also saw over the weekend how quickly the tone can change, depending on how things are going with talks or other developments in the Middle East. So my expectation is the situation is likely to ebb and flow over the coming weeks, maybe over the coming months.

I am hopeful that the worst of the volatility tied to what took place here is behind us and that we can gradually progress forward. But I also wouldn't be surprised if we do see moments of volatility coming from some headlines related to the situation. But overall, I'm focusing much more on the larger backdrop of economic growth than the earnings outlook, more than the situation at this point.

HEATHER: Very reassuring there, Naveen. So let's switch gears now. So every week on *Market Sense,* viewers register for the show, and they submit questions during that registration process, which helps us set the agenda for future episode topics. So we thought it'd be a great idea to take some of the most commonly asked questions we've gotten from you, try to group them by theme, and do our best to answer as many of those themes as possible today. So thank you, Naveen and Maura, for graciously agreeing to participate in this special show.

So I wanted to start off with an AI question. No surprise here, we get a lot of questions from our audience about AI these days, seeing lots of questions about the outlook for tech stocks, how to think about investing across the entire ecosystem from data centers, to memory, to cloud infrastructure, to chips, to industrials.

So just a couple of samplings of our questions, or just one of them here, Ralph asked, "What is the outlook for AI?" And then Laura asked, "What is the best way to invest in the entire AI structure, data center power?" All the things that we just talked about. And we sometimes see these days, often when some of the AI names sell off without any of the news headlines, Naveen, that seem to be driving it, we get a lot of questions about AI, so just wondering what you make of it all.

NAVEEN: Yeah, so we have seen tremendous growth in a lot of investments tied to artificial intelligence. And then there also are periods of volatility. Sometimes investors step back and wonder maybe it's gone up too much or perhaps some of the earnings stories aren't playing out in the ways that they hoped.

I believe what we're looking at here is probably a long-term phenomenon. So this technology, it seems to be having an immediate impact for businesses and individuals day to day. It's still early days, but already more and more companies are reporting some benefits from using this technology to work more efficiently, saving on costs, or driving up earnings or profits. So I do feel like this is something constructive happening here. Yet, it also feels like it's going to take time to develop. It's going to take time to build the technology, but also the infrastructure.

Heather, you mentioned things like energy, industrials companies, materials companies, a lot of different companies getting caught up in building out what it takes to support this new information technology going forward. So I think two things. One, there is probably a lot of growth coming as a result of this. We've already seen a bunch and perhaps there is more to come. And then two, there's probably time here, that this isn't something that's going to just wither out within a matter of weeks or months. It does feel like companies have multiyear plans to put this into place.

Even with those two things being true, though, I do think you will see periods of volatility. It's inevitable. Markets do go up and down over time. Sometimes there is no news headline driving it. Other times there is. But I think as investors see these companies progress, see the earnings move up and down, see projections shift for different businesses, I do believe there's likely to be growth. But volatility is probably something that investors will have to manage as well.

HEATHER: Along these lines, Naveen, we also get a lot of questions about concentration risk, which makes sense. We've got a lot of questions about international stocks. Robert asked, "Are they still outperforming the S&P?" And Carolina asked, "With all the volatility and recognizing that ripples globally, does it make sense to keep a closer eye on my portfolio and shift a small percentage into international stocks or funds?" What do you have to say to that?

NAVEEN: Yeah, I'll put those two questions together. I think they make a good combination. So one, international stocks did outperform US stocks in calendar year 2025. And so far, year to date, near the end of June, now, international stocks are, again, outpacing US stocks. That might surprise some viewers. We've seen a lot of international headlines related to the Middle East, Ukraine, other political developments. Yet, international stocks are outpacing the US markets. A large part of that does come down to some of the technology names overseas are also benefiting from some of the excitement around artificial intelligence, particularly markets in Asia.

So in terms of how to think about having international exposure in a portfolio, my team typically does include international stocks as part of a broad, diversified portfolio, which also includes US stocks, bonds, and other investments. And the goal here is that historically, if you look back, combining US and international stocks has historically led to smoother investment returns for investors. And that is the hope here, that if we do get some volatility in the US stock market, perhaps the international part of the portfolio can help manage some of that risk within an overall plan or portfolio.

In terms of how much to invest or how to invest, this is a very personal decision for many investors. Some folks like to pick their own stocks one by one. Others might benefit from investing, perhaps, in an exchange-traded fund or a mutual fund that provides broader access. And others might want to outsource the whole thing, just have another manager or team manage the portfolio for them, trying to figure out the mix of the US-international for them. So a lot of research can go into how exactly you do this. But I think the idea of including international as a way to diversify from US stocks has historically been helpful. And I believe it's likely to be helpful going forward as well.

HEATHER: Helpful, how to do so is very personalized or should be a personal decision.

NAVEEN: Yes.

HEATHER: Maura, thank you so much for your patience. You're up now. So we just talked about AI investing in international stocks. And this market continues to reach new all-time highs. And yet, we've talked about this a lot on *Market Sense.* Consumers are still feeling a lot of pain right now from inflation, from higher gas prices. Yes, they seem to be coming down. But that doesn't mean that it's an immediate relief for consumers. And the job market hiring is slower, and jobs may not be keeping up with the pace of inflation.

So I think it makes sense that we got some questions on that. And Lori and Pravin asked, "When we think about this confusing current environment, what is the best way to navigate it and market volatility?" I think maybe that's what they were getting at with confusing. Maura, how have you been talking to your clients about this?

MAURA: Oh, sure. That's a great question. The best way you're going to deal with market volatility is to expect for it and plan for it. One of my core business beliefs is that prior planning prevents poor performance. So markets are up about 80% of the time, but that still leaves some time for volatility. So I know it's going to happen. I just don't know when.

So when you work with a planner at Fidelity, we can create a plan that can work in any environment. So we start with creating three buckets, emergency, protection, and growth. An emergency bucket allows you to have cash on hand for emergencies or to draw down in retirement when markets are volatile. Then we create a protection bucket. And the protection allows us to have assets in options that are safe from the ups and downs of the market and then to create an income stream that, again, is protected from that volatility.

Once we get that emergency bucket and protection bucket satisfied, we can then work on the growth bucket. And the growth bucket is where your investments in the market are because generally during volatility, the smartest thing that we can do is to stay invested. Some of the best days in the market have occurred during volatile times. And the growth bucket represents the long-term plan that seeks to beat inflation and capture potential growth.

So at Fidelity, we don't believe in timing the market, but really, time in the market. And as I highlighted before, investing in any environment, it requires a plan. We don't want to ping pong between strategies for growth every time the wind blows. So I always believe in having a diversified portfolio that, number one, aligns with your risk tolerance, and two, is actively managed, is one of the best ways to invest in any environment. That active management allows for small shifts in the portfolio as we go in and out of different business cycles.

Sometimes large cap stocks are the big performers. Sometimes it's commodities. Sometimes it's emerging markets. And it's always going to be changing. And your portfolio really needs to be by design and not by default. So actively working within the business cycle can help protect you on the downside and can seek to capture growth on the upside.

HEATHER: Well, speaking of market volatility, just staying on that topic for a moment, one question that we get all of the time is, in some form or another, somebody asking us, like Stephen, for one, who is one of the viewers that we're picking their question from today, asked, "Is this market due for a correction?" Naveen, I'll have you field that one, since Maura just took that other question. How do you respond to that when you're asked that on customer calls?

NAVEEN: Very natural, common concern. The question of is it due, literally the market doesn't just come up with corrections every three to six months. There's no expiration dates on market rallies. They can go on for quite a while. Another way of thinking about it is, hey, maybe the stock market's gotten too expensive compared to the earnings outlook, so looking at things like valuations, like price to earnings ratios, price to book ratios. Is the market getting expensive, and could that lead to a correction?

So the market right now, if you look at things like price-to-earnings ratios or price-to-book ratios, it is a bit more expensive than average. However, the earnings growth outlook has been very strong. Earnings results have been very strong. And the economy is also growing. So with that kind of backdrop, it's not uncommon to see stocks commanding a higher valuation, higher than average valuation. So that in and of itself doesn't really necessarily tell me anything in terms of whether or not a correction is due.

In terms of what to do about corrections, I actually agree with Maura. I think there's no way to actually predict these things in a good way. And the best thing, perhaps, to do may be to just expect corrections and develop a plan around them. And a key to that winds up being diversification.

So when my team and I manage our client accounts, we typically have our clients. They choose to go into these diversified portfolios. And in those portfolios, they have exposure to a wide range of US stocks, not just technology stocks, large company, small company, mid company. International stocks are in the mix. Bonds are in the mix, commodities. Real estate can be part of the portfolio at times.

And having all of that together, what it typically leads to is the investor is able to participate in a growing market. But when there are corrections that take place in the stock market, whether they're modest or deeper, that portfolio typically manages volatility more. In other words, it doesn't fall as fast as the market in most situations. And that can give investors the confidence to withstand these inevitable corrections and yet still move towards their goal over the long run.

HEATHER: Expect one. It can be easier said than done, but plan for it. And then you can feel a little bit more confident, like you said. And given that backdrop that we just talked about, Maura, I'll ask you about asset allocation, which we get questions about as well. One from Kevin really stuck out. And I know this is something that you get from a lot of clients, you've shared, Maura.

Kevin asked, "At age 70, how much should a retiree have in cash or money market funds, and how much should be allocated to bonds, in percentage terms?" We also got a lot of questions about stock and bond allocation for retirees as well. So could you lump that together and address both of those? For example, Hal said he wanted to hear more about the suggested "Stock/Bond mix at retirement, and what's the suggested portfolio allocation?" Maura, can you take that?

MAURA: Yeah, absolutely. And frankly, Kevin and Hal, the best answer I can give you is it depends. There's many financial influencers, podcasts like us, influencers, TikTok, magazines, that are going to come up with a formula based on age. But what that doesn't take into account is anything about you. Every 70-year-old comes to me with a different origin story, different levels of wealth, different risk tolerances, different goals, different plans for short-term and long-term cash. So there's really no one-size answer that fits all.

But if you work with a consultant, which is something we offer all our clients at every level, we can provide collaboration to help create a target asset mix that's right for you. We discuss your feelings about risk, your willingness to bear the ups and downs of the market, and your need for the money short and long term, and maybe your plans for legacy. The best stock-to-bond allocation that you can build is the one that you can stick with.

HEATHER: Just terrific perspective there, Maura. I really liked your answer there. Naveen, let's switch gears, talk about interest rates and the Fed. We just had that Fed meeting last week, which I mentioned at the top of the show, Kevin Warsh for the first time. We got to see him as the head of the Fed.

And we've received a lot of thoughtful questions on this topic from our viewers, including Derek, who asked, "Inflation has stubbornly remained above the Fed's 2% goal. The budget deficit is high and growing. And government debt may be unsupportable. So if these trends continue, what do you believe will be the impact on the US dollar, and how should we position our investments?" What do you think, Naveen?

NAVEEN: Another common question. So I'll break it into a couple of parts. One, thinking about the Fed right now, they're very aware of the inflation situation. So the meeting this week, or last week, they did discuss it. And it seems like they're focused on that as something to address. And for now, they've decided to leave interest rates unchanged. But they seem to suggest they're willing to raise rates if they need to if inflation does continue to stay warm or even accelerate from here. So that's more of a near-term view of what the Fed is seeking to do.

Now, your other question is more, perhaps, long-term and existential. As of right now, I don't see clear signs of an imminent debt crisis in the US. Typically, you would see things like surging interest rates. The government, perhaps, would be changing tax plans to pay down the debt. We might, in other cases, see things like volatile stock markets or falling currencies. We're not seeing any of those warning signs just now. So I don't think this is happening today or next week.

However, down the road, if we do see the debt level grow to a point where most global investors start to wonder, maybe this is becoming a bit unmanageable, then we might see things like higher interest rates in the US. We might see things like higher taxes, perhaps, to help pay off some of that debt. And we may even see some trimming of government programs that we all like. Perhaps it's national defense. Perhaps it's health care in some form.

And I think as all of us, as voters, maybe we'll have a say in this and try to vote the right people in to address it. But as investors, what can you do? One, I wouldn't panic right now and think that, oh, this might happen in a few years. I need to do something drastic today. I think if you stay diversified across a wide range of investments, you may be in a situation where US dollar movements up and down will have less of an effect on your overall outcome over time.

And then the second thing to think about is if you can grow your own wealth by getting invested, staying invested, then perhaps you'll better be able to meet any changes that were to take place when it comes to interest rates or taxes or different government programs as well, so some other perspective to add to this. But in terms of making a big change right now because of this eventual possibility, that feels, to me, it might not be it might not be a necessary move to make for most investors.

HEATHER: Yeah, like you said, pretty existential question there. Maura, given everything that we've talked about so far, people concerned about the national debt or concerned about AI, and that might be reasons that they are not in the market right now, and that is something we hear all the time from our audience, is that they're on the sidelines, they don't know what to do, how to get back into the market. And a lot of questions from our audience have to do with having too much cash because of that. Gary asks, "What is the best place for uninvested cash right now?" How do you talk clients through that kind of a problem?

MAURA: Well, that's definitely the million dollar question in my office, Heather. So, Gary, the first question I ask you is, do you have a comfortable emergency fund set aside? We recommend three to six months of emergency expenses in cash, and then in retirement, 6 to 12 months of emergency funds available. Once you've got that satisfied, then I'd ask you, what's your goal for this money? What do you want to do with it? Is there a short-term need for it? Are you saving for the purchase of a second home, a vacation, new furniture? Do you need it to pay for college?

So if there's a specific reason, and it has that short-term use, I would say, you may want to consider a high-yield savings account or some treasuries or CDs. But if there's no specific reason that you're holding in cash, we want to really look inward and find out, why aren't you acting? Are you afraid to get in the market? Is it too high? Is it too volatile? What's giving you analysis paralysis? Because cash is not a risk-free investment.

As you can see from the slide we're holding up here, cash does not take into account inflation risk nor reinvestment risk. So cash is rarely king. Any time can be a good time to enter the market. The gap between the best timing and the annual contributions is not that wide. And even the worst timing historically outperformed cash by a wide margin. So for cash you don't know what to do with, and you don't have a short-term use, the market is typically the best place.

HEATHER: You hit the nail on the head. It can lead to paralysis. And it's a very emotional conversation that I'm sure you're having with clients as you walk them through something like that.

I think just lastly, because we're kind of short on time, what might wrap the discussion nicely would be a theme that we've heard a lot about is this time different to try—along those lines of the emotional questions that people are coming to you with, Maura and Naveen, with all of the advancements that are happening in real time that we are witnessing right now, this moment in history that we are in, I think a lot of people are wondering, are we living through fundamentally different times? And does that mean we should throw out that old investing playbook or our parents' investing playbook, and we're going by new rules now? How do you answer that for clients, Maura and Naveen. I'll let you both end with that.

MAURA: Yeah, I hear all the time. This time feels different. It doesn't feel good. Well, as a Long Island girl, I always think of the song, "We Didn't Start the Fire." Billy Joel wrote that song, capturing headlines from his life. And as the chorus sings, "We didn't start the fire. It will always be burning, since the world's been turning. But when we are gone, it will still burn on and on and on."

Change is always going to happen. That doesn't mean we throw out the playbook. It means we look at history and facts, not emotions. And we adapt our strategy to the changing times. And we learn, we research, and we develop new ways to succeed. We stick to it.

HEATHER: Anything to add, Naveen? Final thoughts?

NAVEEN: Yeah, if I go back and think long term, I go back several decades, perhaps to 1950, and I reflect on what's happened with the markets over that time, we've seen multiple expansions that have lasted for years, that have generally led to higher stock markets and improving returns for investors and stocks and bonds. Yet, there are inevitably corrections or recessions that pop up as well.

And in the moment, those can feel intimidating and scary and nerve-wracking. Yet, over very long term, looking back, if you were to look at what an investor is able to do by sticking it out through ups and downs in the market and staying invested, they've experienced tremendous growth over the decades.

And over the coming years, I expect us to run into new and unusual challenges. It's always different going forward. And yet, I have a hard time believing that suddenly these trends that have been in place for many, many years of a growing economy, higher earnings, leading to higher stock prices and positive returns across bonds and other investments as well, is suddenly going to change.

So I think by coming up with a plan, as Maura has been talking about, I think is vital for most investors. And once the plan is in place, then we can discuss different ways of getting to a particular goal and investing in different ways that can help manage both risk, while also looking for growth opportunities for the long run.

HEATHER: Well, like Maura said, change is always happening. But one thing that is certainly reassuring is that our customers have folks like you, Naveen and Maura, to walk them through those uncertain times side by side, so really appreciate your thoughtful answers today and what you do for our customers on a daily basis.

We'll leave it at that, but if you have a minute to spare, we would love to hear from you about the topics and questions you want to hear every week. And if we are hitting on the questions that you are hoping to hear from when you come to our show every week, you can head to Fidelity.com/MarketSenseFeedback, and you can take a short survey there to let us know how we're doing. And we will be reading those surveys and using them to help us plan future shows.

On behalf of Naveen and Maura, I'm Heather Hegedus. Remember, we're on every Tuesday at 2:00 Eastern. We're going to be off around the 4th of July, but we will be back in July. We'll see you then.

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