

# *Fidelity Viewpoints*<sup>®</sup>: Market Sense

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## TRANSCRIPT

### SPEAKERS:

Heather Hegedus Jurrien Timmer Jake Weinstein

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**HEATHER HEGEDUS:** Hello there, everybody. And thank you so much for making the time to join us for another edition of *Market Sense*—a special edition today. I’m Heather Hegedus with Fidelity. And today, we are focusing on the escalating conflict in Iran.

Developments across the Middle East continue to unfold pretty rapidly right now. And while many details are still uncertain, right now, we’re going to break down for you today what we know at this point and explore the expanding regional conflict in the context of the broader global economy for you. We also want to be mindful, having said that, though, that behind every headline are real people. We know geopolitical events touch every day lives. So I think it’s just important right off the top that we acknowledge—that we acknowledge the human impact on all of this and that that makes this conflict even more complex. So our thoughts are with everybody impacted by this today.

Here today, to help us make sense of the potential macro implications of this conflict, we are excited to be joined, as always, by Jurrien Timmer, who is Fidelity’s Director of Global Macro. We’re also joined today by Jake Weinstein, who is a senior vice president here at Fidelity. He’s on Fidelity’s Asset Allocation Research Team, or AART, as we call them here internally. And Jake has been closely tracking the latest developments. And he’ll be sharing his perspective today on whether these dynamics might influence financial markets and what this all might mean for investors going forward from here. So thank you, both of you, for taking time out of your busy schedules to join me today. Jake, welcome back to *Market Sense*.

**JAKE WEINSTEIN:** Thanks, Heather. Happy to be here.

**JURRIEN TIMMER:** Looking forward to a good discussion.

**HEATHER:** An important conversation for our customers, we know. And today is Tuesday, March 3. We want to begin with an update, just first of all, on where things stand and the market reaction that we have seen so far, Jurrien. So yesterday, we saw a relatively muted response from the markets. Today was a bit of a different story. We saw a bit of volatility. What do you make of that, Jurrien? Why are we seeing a bit of a contrast between the market reaction yesterday and today?

**JURRIEN:** So the way I would frame this is that the markets are very efficient in discounting new information, right? The markets are always in a state of price discovery is what we call it. And so sometimes things are quiet and the market feels or investors feel comfortable that they have a handle on how things are going to be. And so they price that in. And the markets are quiet.

And then there are other times like right now where the news flow is moving very fast. It has, potentially, big ramifications, or not. We don't know—but that there's just a lot of moving parts, and the market is trying to, again, engage in price discovery to figure out what it means. How high are oil prices going to go? What happens here in terms of geopolitics?

And so the markets are trying to get a handle on that. And if yesterday's news was where things were landing, then yesterday's reaction might have been enough. But I think in the markets having a sense that overnight things maybe have escalated, and maybe that there's not a quick end to that, and the markets have to price that in as well. So this is something we may have to live with for a little while as the market gets a sense of where this whole conflict is going.

**HEATHER:** And, Jake, I want to bring you in, too. So, of course, the most immediate impact of this conflict has been to crude oil, right, with the Strait of Hormuz essentially closed. We've seen some near-term disruptions in the oil market. Brent has gotten as high as \$85 a barrel thus far just a couple of days into the conflict here.

Do we have a sense at this point what this could mean for the longer term dynamics in oil and other key commodities as well?

**JAKE:** Yeah. To your point, there's two ways to think about this. There's near-term factors. There's long term factors. And when you break down something like oil, and any, really, commodity price or price of anything, it comes down to, really, demand and supply.

And when you talk about long term impacts, I think if you've looked at the Asset Allocation Research Team's quarterly market update, and other thought leadership materials we've been posting for quite some time now. We believe we are in an environment where there's higher geopolitical risk and in that type of environment, if you think about the long term impact, say, from a demand standpoint, many countries around the world are just maybe concerned about attaining different commodities and having enough strategic reserves on hand.

This is something China's been doing for quite some time in terms building up strategic reserves of petroleum. And you're probably going to see these types of things happen. But the other is also supply constraints. The Straits of Hormuz, as you mentioned, might be a near-term consideration, but this may lead to other types of activity where different countries, companies are taking activity to try to improve the supply and flow of things like oil or natural gas because they don't want to succumb to massive shocks in oil prices. So I think this is going to continue to have an impact, not just over the near term, but, to your point, over the long term as well.

**HEATHER:** Well, we know that oil is a big factor in the macro picture, Jake, right? And right now, prices at the pump don't seem to have been impacted that much at this point—only just a couple of cents a gallon, according to AAA. But there's a catch-up time period here, I understand. It won't take long for prices at the pump to follow suit with rising oil prices. So when oil spikes, inflation can rise. I was hoping you could talk about how that could impact everything from consumers and what we are paying to the US and global growth in the near term.

**JAKE:** No, absolutely. And oil is and always has been very important. But one thing to keep in mind is that higher energy prices, while they will impact the consumer who has to pay for more gas or higher heating bills, for example, they're less exposed to energy markets or higher energy prices than they used to be. A lot of people are looking to the 1973 period.

It's very different compared to then because US consumers back then, energy costs were over 10% of their consumption basket, whereas today, energy and gasoline is much less—less than 3% of their consumption basket. So we're just less exposed from a growth standpoint.

It doesn't mean consumer confidence can't wane or maybe spending patterns change. But it doesn't seem like it's enough, at least particularly right now, with the amount that energy prices have gone up or oil prices have gone up, to tilt the economy into recession or cause a major derailment of the US from its overall business cycle. But where it will have a little bit more of an impact near term is on inflation, because it will impact the Consumer Price Index. It will impact that likely this year.

How long it's going to impact the CPI, if central banks are going to change their tone in terms of trying to think that this may be a little bit inflationary environment for longer, it's a little too early to tell. Futures markets are seeming to think that this is going to be inflationary, and central banks may have to not be able to cut interest rates as much this year compared to maybe where they thought the last couple of weeks. But this is, to Jurrien's point, a very fluid market. And you can expect to see things moving around a bunch, including interest rates and other financial indicators.

**JURRIEN:** Yeah. And I would just dovetail on what Jake said, that the Fed and other central banks, obviously, if sustained higher oil prices—and we don't know if they're going to be sustained higher, it could really just be a temporary shock—but if that were to happen, it would

obviously be inflationary. And that might slow down the Fed's path towards normalizing interest rates even further. But if there is a growth shock associated with that, the Fed will obviously think about that as well. And that's why the Fed tends to think about inflation as core inflation once you strip out energy, which does tend to be very volatile.

**HEATHER:** The big question for the markets as well, Jurrien, would you agree, is the timeline of all of this. We heard the administration say that this could go on for weeks. So we talked a little bit at the top of the show about the markets being in price discovery mode. And I'm wondering what that could mean for market impact with uncertainty, as we know, being a driver of market volatility. As a conflict like this goes on, at some point, do markets eventually tend to price this kind of news in?

**JURRIEN:** Yes. And so the markets—of course, us as humans look at the headlines. And it's obviously very impactful and dramatic. And there's the loss of life and everything. But the markets tend to be quite cold blooded, I hate to put it that way. And the markets will distill this down to, OK, is this a systemic event for the US economy, the US fundamentals of earnings, and margins, and taxes, and interest rates?

And that's how the market will conclude this. Because we've had many geopolitical events and headlines in the past. And some of them have moved markets, but others, many others, have not because there was not deemed to be a lasting impact on, again, GDP growth, consumer spending, companies willing to do capital spending, the level of interest rates.

And so that's where this will all come down to. Whether the conflict takes a day, or a month, or longer, that's the signal from the signal to noise ratio that I think the markets will ultimately settle on. And the markets will probably fairly quickly make a conclusion, which may or may not need to be adjusted—but it'll say, OK, this is what it means.

And then if that changes, the market will have to price it in. Again, as I said earlier, constant state of price discovery. Markets always do that. And they always will. And, again, sometimes the information flow is chaotic or impactful. And other times, it's not.

And right now, the market just has to settle down and figure out what does this mean. And for us as investors, it's important to take a step back and check our portfolios to make sure that things are in the place where they should be and hopefully have enough balance in that portfolio that we're not too affected financially.

**HEATHER:** Timeline being a key signal for this market as investors rethink potential strategies here. I wanted to talk, speaking of that, about potential risks and the demand right now for safe haven assets like gold and treasuries. Jake, I'll turn to you on this one. What do you say to investors who are tempted to just start selling?

**JAKE:** Yeah. So it's a complete reminder on this—timing these things in terms of geopolitical events is very challenging. And we can say with high confidence that we think we're going to remain in a period, in a regime with higher geopolitical risk over the medium term, but that's over several years. And what matters over a several year period, over a full cycle, is fundamentals like earnings and other things—like profit cycle, things like Jurrien continues to hammer down on what are the most important things. Over a couple of days or over a couple of weeks, things can get super volatile. And risk markets are meant to be volatile. That's why they call them "risk markets."

But safe haven assets, what's been interesting in the first couple of days after the conflict is that treasuries, US treasuries or gold, have actually been very volatile. Interest rates have been rising pretty sharply. Gold prices all over the place, silver even more volatile. So things that, seemingly, are deemed safe haven assets haven't really been behaving really safe haven.

And so, again, this is completely normal, as Jurrien talks about how the market's trying to just shake things out, interpret things—but having a little bit more of a longer term picture and longer term backdrop makes sense. And does it make sense to start selling stocks when start selling out of your portfolio, when the overall fundamentals of the economy still remain mid-cycle and relatively constructive for the US and other global economies? And is this conflict going to shake the global economy and put it into recession? The base case is no. If that's the case, then it's very difficult to make some short term moves in order to react to just these volatile headlines.

**HEATHER:** Yeah. As we like to say here at Fidelity, it's time in the market not timing the market. You mentioned the dollar too, Jake. So I know your asset allocation team had been predicting a weaker dollar long term prior to this conflict. Does this all change your long term view on non-US assets in any way?

Because we saw non-US markets reacting pretty sharply in the first couple days of this conflict. Does this at all change how investors might want to think about exposure to foreign equity markets?

**JAKE:** No. And thanks for mentioning that, because the overall view we've been really trying to hammer down over the last couple of years is that a lot of the events that we've been seeing from a political and a geopolitical standpoint may ultimately change the overall leadership and the world order in terms of what assets are likely going to lead over the long term, whereas we came off a two-decade period where, to your point, the dollar had just been doing really well.

So what actually has been happening over the last couple of days right after the conflict started was the safe haven assets like the dollar started appreciating, which makes complete sense. But what may not make as much sense is other safe haven currencies like the Japanese yen or the Swiss Franc haven't been behaving nearly as well., So, again, the market's trying to digest these things and figure all these things out.

A lot of it has to do with near-term positioning, where institutional investors are parking a lot of their money, where a lot of the trends have been. There have been a lot of dollar shorts out there that investors wanted to close out as volatility was coming up and maybe some margin calls have been put on.

So it's really too soon to make any change. But I would still say that these geopolitical events are still actually a reminder that you want to be more diversified, not be too concentrated in any one market, any one sector, any one region. And now that non-US assets are a little bit cheaper and, perhaps, could get a little bit cheaper over the next several weeks as a result of this volatility, it may be an opportunity to consider rebalancing and think about more of the long term in terms of how your portfolio should look given the longer term backdrop outlook of a world of higher geopolitical risk.

**JURRIEN:** And I would just add to that it's really interesting, and probably this has already changed with the movements in the markets today, but until a day or two ago, international stock markets—so whether it's developed equities or emerging equities—actually started to become negatively correlated to the US stock market, which has more to do with the Mag 7 and the top heaviness of the US market.

But, as Jake said, diversification globally makes sense anyway. But right now, with markets being very uncorrelated, even within the equities sphere, is a really interesting development and makes it even more appealing, at least in my view, to paint the world with a broad brush, if you will.

**HEATHER:** Just to translate what you mean by “negatively correlated”—when you say international stock markets are negatively correlated to the S&P, usually they would be rising and falling in unison. And we're not seeing that right now?

**JURRIEN:** Yeah. So if you think about it this way—even taking the S&P 500 Equal Weighted Index, which strips out the effect of the Mag 7, the really big tech companies, normally the S&P Equal Weighted Index would have a 95% correlation to the S&P Cap Weighted Index, which means that 95% of the behavior of one index can be explained by the behavior of another index. And that makes sense because it's the same 500 stocks, they are just weighted differently.

Right now, the S&P Equal Weighted Index only has a 46% correlation. And the ex-US basket of stocks has a negative-9% correlation. And that just means that what's happening in the S&P is not explaining anything what's happening outside the US. And that's a good thing, because when we diversify a portfolio, we want to be in uncorrelated assets so that if one side moves this way, the other side doesn't necessarily move with it.

**HEATHER:** Correlations—what are we seeing in the bond space right now, Jake? Does this conflict change how investors might want to think about bonds? And how do bonds traditionally behave during conflicts like this?

**JAKE:** Yeah. So, as I was alluding to before, bonds typically provide that type of safe haven status. And in the first couple of days after the conflict, you didn't see that. And it's another example of correlations shifting around that Jurrien was talking about where you actually started seeing positive stock bond correlations.

Now, is this likely to continue, say, over the next 6 to 12 months? I don't think so. This is more of a type of environment where you get these things to occur over a one day, or one week, or even a one month period, but not typically over the longer term. You typically get bonds and stocks that are positively correlated during a period of sustained high inflation.

And so if the concern and risk is higher oil prices, higher oil prices for longer, and inflation actually trending higher, then it makes sense that bonds, perhaps, aren't providing as much of a safe haven status. But the lovely part about bonds, what's really cool about them, is if they do, indeed, sell off, the yield becomes higher when the price goes down. And so, therefore, they become more attractive.

So at some point when yields become attractive enough, you'll see people coming in and basically finding the attractive levels of bonds. And at the yields they're at today, they're actually providing pretty good levels of even on an inflation-adjusted basis. So real yields provide pretty good value.

So that's one way to think about it. The other is other types of inflation sensitive fixed income markets like TIPS, Treasury inflation protected securities, or shorter duration treasuries compared to long bonds, they may have less exposure to higher unexpected bursts of inflation, and, therefore, could provide better diversification to an overall portfolio.

**HEATHER:** We're running up against the clock here, but I wanted to get a couple more questions, and the first one being geopolitical implications—potential, I should say. Multiple nations are involved in this. And, Jurrien, you have been saying since at least 2025 that we are in a new world order. So I thought maybe both of you could weigh in on what, as investors, geopolitically, haven't we talked about in this conversation yet that we might want to be thinking about.

**JAKE:** Yeah. So I'll kick it off. And what I want to start off by saying is that we at the Asset Allocation Research Team have been talking about geopolitical risk for quite some time. It's been quite a start to 2026, given the events we've already seen in Venezuela, and in Greenland, now Iran. Don't think that this is going to just end here and just be, even if this conflict ends in, say, four to five weeks, there is high likelihood we're going to continue to see more geopolitical implications.

What's China going to do about this? China, they're threatening Taiwan at some point. There's going to be a lot of things coming up. And so that's why thinking about what this means overall over the long term and what that means for a portfolio, having the right type of diversifiers, exposure to real assets, things like commodities—those things in portfolios can help mollify volatility and provide less disastrous outcomes if, indeed, stocks tend to have a few bad days or weeks of outcomes.

**JURRIEN:** Yeah. And I would just add, again, since World War 2, until recently, the US has been this sole superpower in the world. But now, we're in a fragmented, like you said, spheres of influence, right? So if you think about the Monroe Doctrine, you have the Western hemisphere sphere of influence, which, obviously, is driven by US interests.

Then you have Russia, you have China. And so, just to make the distinction between what happened with Venezuela not too long ago, that was sort of In the US' backyard, if you will. Now, this is in the backyard of both Russia and China, or it's in the middle. And so, in that sense, it might have more long lasting implications from a geopolitical standpoint, as Jake was saying.

**HEATHER:** Jake, I just wanted to give you a moment to just thematically give us some of the big takeaways that you see to help close this out—the big takeaways for investors from a market standpoint.

**JAKE:** Just wanted to hammer home the point that these type of events are normal. As sad as they are, they are going to happen more often than, perhaps, they happened over the previous decade. So don't be surprised if they occur.

But what you really want to focus on is where the US and global economy are. And they're solidly in the US, solidly in the mid-cycle. And, in terms of Europe, we see improving signs over there as well. And so you're going to see volatility as a result due to this uncertainty. But fundamentals and where economies are in their business cycle is core to thinking about how to invest over the medium to long term.

**HEATHER:** And, to your point, the VIX, which, of course, is an index that measures expected volatility in the stock market, is trading at an elevated level right now. Jurrien, I'll give you the last word here. Does that create opportunities for investors to rebalance right now?

**JURRIEN:** Yes. So risk and opportunity go hand in hand. And if you're worried about this news and you're worried about what this means for your investments, your portfolio, this is a good time to maybe sit down with your financial advisor or just get a sense, OK, where am I invested? What is the plan?

Where am I supposed to be invested? Am I over my skis? Do I have too much risk? Do I have too little risk? And, again, when markets get shaken as they are now, it is an opportunity to rebalance, right?

But the point is, take the long view. As Jake said, the fundamentals are sound. There's a reason the market is up 100% since this bull market began in 2022. It's driven by earnings, by capital spending. Interest rates are reasonably well behaved.

And keep an eye on the long term. You don't want to be that person that sells first and asks questions later. Ask the questions first and see whether you are where you should be in terms of your investment allocation.

**HEATHER:** Strategies to live by. Thank you to both of you for such a comprehensive discussion today on a situation that just started this weekend and continues to develop and then the market continues to try to make sense as we talked about today.

Before we go, we'd like to leave our audience with a resource. And today, we want to leave you with a link to our extensive Market Volatility page. It's simply [Fidelity.com/MarketVolatility](https://www.fidelity.com/MarketVolatility). That's all you need to remember. And there, you will find articles about the continuing situation and market impacts from our Fidelity Viewpoints partners.

You can also subscribe to the Fidelity Viewpoints newsletter on that Market Volatility page as well, and that will send you investing articles straight to your inbox for free. And you don't have to be a Fidelity customer to subscribe to that newsletter. On behalf of Jake and Jurrien, we hope to see you back here next week—Tuesdays at 2:00 Eastern are when you can catch us live, but the replay's always available. We're also on LinkedIn, YouTube, and wherever you get your podcasts. Take care, everybody.

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