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TRANSCRIPT

SPEAKERS:

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HEATHER HEGEDUS: Hello there, everybody. Thank you so much for making the time today to join us for another episode of *Market Sense*. I'm Heather Hegedus with Fidelity. So it's been a pretty slow start to September with no real movement in the markets, so to speak. Investors may be watching and waiting to see what happens at next week's Fed meeting, which could result in our first rate cut of 2025. That's what the markets think is going to happen anyway.

From a data standpoint, sluggish job numbers for August seem to be really cementing the case now for the Fed to cut. And the larger question seems to be, of course, not whether the Fed is going to cut, but by how much. So to talk about what this all might mean for the markets and for investors, we are thrilled to be joined today, as we often are, by Jurrien Timmer. Of course, he is Fidelity's Director of Global Macro.

Plus, we are excited to be welcoming back one of our other superstar guests here today to the show. We're talking about National Brokerage Coach Heather Knight. She's here to talk about a topic that we get a lot of questions on, which stocks could pay the highest dividends, and how to use dividends in a portfolio. And Heather's also going to show us some free tools today that you can use to identify high dividend payers and research dividend stocks further. So I'm just so excited to see both of you. I've missed you. It's been a couple of weeks since we've had the show because of vacations. And Heather, welcome back.

HEATHER KNIGHT: Hey, thanks for having me. It's good to see both of you.

JURRIEN TIMMER: It's great to see you all. It feels like it's been months, actually.

HEATHER H: Today is Tuesday, September 9th. Let's get right to it, because we do have a lot to talk about since we've been off. But just there's so much happening now that we're into September. Jurrien, as I mentioned off the top, we are seeing some softening signs now in the US labor market. So I wanted to dig into that with you right now, if you would please.

So US job growth cooled in August. Unemployment rose to a nearly four-year high, and then just this morning, we got some news that I wanted to talk about with you, which was those revised job numbers from the first part of the year from January to March, which suggest hiring has been slowing since the start of the year, and by more than some had anticipated. So can you talk about that with us? Walk us through what this data might mean and how the economy is doing, and what this might mean from what happens next week with the Fed.

JURRIEN: Yeah, so clearly, the jobs data has been soft, not contractionary. There are still not many or any signs, really, that a recession is imminent. But clearly, the jobs market has grown more sluggishly than expected. And you mentioned the revision by about 900,000 jobs being revised down. The unemployment rate is now at 4.3. That's still very, very low, historically speaking.

And then you look at, for instance, the ratio of job seekers versus jobs that are available. The economy is in pretty good balance. So companies aren't hiring a lot, but people are not really in search of jobs a lot. And so the economy is in balance, but it is softening. And so not yet at any kind of recession threshold. But when you look at the pendulum swinging back and forth over the years and over the decades, clearly, the trend is towards softening. And I do think that that gives the market the license to finally execute on that rate cut that has been expected for quite some time.

So at this point, the Fed is going to meet, of course, very soon in September, and the markets are expecting the Fed to cut rates now for the first time in basically a year. It was last year that the Fed cut 100 basis points, so this will have been a fairly lengthy pause. The market is expecting the Fed to keep cutting all the way down to below 3%. I'm not sure how realistic that is, because inflation does remain well above the Fed's target of 2%.

So the various inflation numbers are coming in at about 2 and 3/4, and they've been sticky at that level. So this is a conundrum for the Fed, of course, because they have a dual mandate. So full employment on one side, and price stability at 2% on the other side. And if prices are rising faster than the Fed's target, but employment is growing slower than the Fed's target, where does the Fed come in terms of choosing which mandate to favor, basically?

HEATHER H: Prioritize, right? Prioritize.

JURRIEN: Prioritize. Yeah, so that's going to be a challenge for the Fed in the coming months. And of course, on top of that, we have, potentially, the drama of an outgoing Chair Powell and an incoming new chair, and whether there'll be dissensions, and this and that. So that's a whole other dimension to this.

HEATHER H: Absolutely, another layer to it. Let's talk about recession concerns, as well. A slowing job market does lead to those concerns about recession. We continue to see bond yields go down. But then on the flip side, stocks continue to go up. Markets had reached new highs this summer. So how do you reconcile that? And what does that mean for the economic backdrop?

JURRIEN: Yeah, so the 10-year Treasury yield has fallen now to about 4.1%, which is at the bottom of its range of the last few years. So the bond market is clearly thinking, OK, the economy is slowing. The Fed is going to cut rates more than maybe we thought a few months ago, because if short rates fall, generally, long rates will fall with it. Not always. So the bond market is betting on a slowdown and an easier Fed. But the stock market, as you mentioned, is making new highs. And there's a lot of momentum in the earnings picture.

So obviously, you want the stock market to go up because earnings are growing. That's better than if valuations are going up. And of course, we have the tariff tantrum back in April. Earnings estimates were cut. And then, the tariffs didn't quite pan out as bad as some analysts expected. And then we got the One Big Beautiful Bill. And that sort of unleashed more confidence among companies. And so earnings are being revised higher now. Margins are making new cycle highs.

And it's the opposite of what we all saw back in April when we saw those tariffs, and those are going to cut into profit margins. So there is quite a bit of fundamental momentum in the stock market, driven by rising earnings estimates. So it's definitely a different tale. And so we'll see who's right. But again, we see very little evidence that a recession is imminent. Just because the jobs market is slowing doesn't mean we're heading into a recession.

And so at this point, the market is threading that needle, both from stocks and bonds.

HEATHER H: Threading that needle for sure, but that's really encouraging to hear that we don't see much evidence that a recession could be imminent here. So thank you for getting us caught up on the latest market headlines. But let's turn now, Jurrien, our discussion today about dividend stocks and why they may be appealing to investors, as well as talk about some of the risks that they can pose, as well.

So Heather, thank you for joining us to talk about this today. We know many investors are still keeping their money in cash right now. But with the market's pricing and that rate cut next week that we were just talking about with Jurrien, that could lead to lower rates on short term investments. And that might mean that this could be a good time to start thinking about some of the next steps with your portfolio.

So let's start with the basics first, Heather. Can you talk about what dividend stocks are and what role they might play in a portfolio? Why do they matter, so to speak?

HEATHER K: Yeah, absolutely, Heather. And you're spot on. There's a lot of people right now that are sitting in money market. And so we want to really think about ways that we could maybe potentially look for investment opportunities. And so one of the things that people are looking at is dividend stocks. And what they are are stocks that pay regular dividends. So they're typically paid out quarterly. They're paid out in cash normally, and it's usually out of a company's profits. And a lot of times, people have the ability to take that and reinvest or buy new shares with that, or reinvest more shares with that.

Companies offer dividends to attract more investors, so they pay a steady dividend. They can also serve as maybe even a signal that a company's financial health or future prospects are potentially boosting the stock price. The dividend yield itself, though, is calculated by annual income divided by the market price. So for an example, if a stock had a share price of $100, let's say, that pays a quarterly dividend of $1. That would have a dividend yield of 4%. So that $1 times 4, divided by the 100.

And so that said, those companies, as well, that may not stay forever. They're free to stop, start or cut dividend payments at any point in time. And so if the stock price can change on a day-to-day basis, as well, during the market opening, that means that dividend yield can fluctuate, as well. So that stock, those stocks that pay the higher dividend, they can change from day to day, week to week, month to month.

And also, one thing that I think a lot of folks forget about, too, is that you pay taxes on those dividends that you receive in taxable accounts, just like a brokerage account. So that's something to consider as you start to think about what your real yield is. Dividends do matter, though, too, Heather, because they can contribute to the investor's total return. So that can be benefited from a compounding perspective. Long term investors who reinvest those dividends, they receive those back in their portfolio. So it's nice to be able to take a look at those things and figure out how does this all fit together.

One thing that I do want to make sure that to highlight, too, is that those dividends aren't guaranteed. They shouldn't be seen as predictable sources of income. And I think that we forget about that. We get so used to getting those payments every single month, or every quarter. And we assume that that's going to continue on. And that's not always the case. So it's really important that you think about other opportunities if you're looking for that predictability of income stream, maybe even looking at bonds, for example. So those are some things I would look at.

And finally, one thing that I would highlight, too, is that dividend paying stocks have historically experienced less volatility than other stocks, and they may be considered a little bit more stable for more mature companies. So those dividend paying stocks can potentially help out and balance other parts of our portfolio, as well. So it's nice to be able to look at the benefits of all those, of course, and some of the cons, too.

HEATHER H: And weight some of the risks, like the fact that they don't necessarily pay a steady stream of income. These companies are free to stop, start, change that dividend at any time. What about stocks that pay the highest dividends? Are they the best investment, or are there potential risks that come with chasing some of those high dividends?

HEATHER K: Yeah, so I've seen a lot of folks try to chase those high dividends. And believe it or not, stocks with the highest dividends are not always the safest investments. Companies that pay very high dividends tend to be companies that could be in distress. They might be raising that risk of further deterioration, or even bankruptcy. So it's really important to take other factors into consideration.

So those high-dividend stocks look appealing. They look exciting. We want to jump into them. But there are several risks in those just solely basing it on saying, I'm looking for a company that's just paying high dividends. I'd say the biggest risk that you're looking at, too, is the falling stock prices. That's another thing to take into consideration. High dividend yield can signal a stock price decline. And if the stock falls in price, that denominator in the dividend yield equation kind of shrinks.

So that has the effect of pumping up that stated yield. So even if a company is able to make further dividend payments, investors should really look at things that might be a problem like returns that are eroding against that falling share price. Another risk to consider is dividend cuts. I mentioned this a little bit earlier, but it's possible that a company could stop a dividend, or they may even just cut it completely, or cut it for a small period of time. So if a stock has a very high dividend yield, it's typically a signal that investors don't believe that the company might be able to sustain that dividend.

So it's important to take those things into consideration before jumping into high paying dividend yield stocks. And they can be misleading too. So at times, those companies that pay even special dividends or a one-off dividend. And that does happen. Typically, you've seen that. I've seen in the past towards more the end of the year. But that would be considered a one-time payment to shareholders. And so when we think about those types of things, that might inflate or change the overall yield itself.

So searching for just how high a yield might be on a stock that's paying out, it's important to understand that there are other factors that you should be taking into consideration before just kind of jumping into to seeing the best as possible. And I know it feels good. We see these high yields, and we're like those are the best ones. I want to jump into that. But at the end of the day, I would say, caution. Slow down a little bit, and then let's look at some other fundamentals before making those decisions.

HEATHER H: And it's sort of counterintuitive. Right, Heather? You would almost think that sometimes the stronger, the higher the dividend, the stronger of the stock, the better the investment. Jurrien, did you have something to add to this?

JURRIEN: Yeah, I would just add, this reminds me of the old adage that there's no such thing as a free lunch. So the markets are very, very, very efficient. And so if you see a really good company, or that you think is a good company, and its dividend yield is much higher than other companies, you'd kind of want to ask why first. So what I find is that you want stable dividends. Dividends are kind of like a sacred contract. They can be changed, of course, during times of distress. Dividends will sometimes get cut.

But what I prefer to look at is the growth of the dividend, rather than the dividend yield itself. So if a company has a—if it's a good company, has a dividend yield of 4% or 5%, very competitive with bonds for instance, and they are increasing that dividend consistently over time, that, to me, is a really good sign, rather than just say, OK, this company is yielding 9% instead of 5%.

HEATHER H: OK. And generally speaking, the higher the yield, the riskier the investment. In your opinion, Heather—and Jurrien, feel free to chime in too—what is a better approach than to income investing using dividends?

HEATHER K: Well, I think that one of the things that Jurrien mentioned, too, is just looking at the bigger picture. If you see something that looks out of place, it probably is. It might be too good to be true. So a lot of experienced dividend investors will focus on the sustainability of dividends. That means that they're looking for those companies that are financially healthy, and are more likely to continue to pay dividends. So some considerations investors might focus on are dividend coverage ratio, so the dividend payments that come out of a company's profit. The coverage ratio compares the size of the profits to the size of the dividends.

All else equal, the higher the ratio of profits to dividends, the more sustainable the dividend might be. Dividends to free cash flow. Companies need cash to pay those dividends out. So for example, if a dividend payments have been outpacing free cash flow, they might be unsustainable. This is looking underneath the hood of the company, again, because we do know that sometimes, like I said, they'll stop paying payments, or even you might be a little bit more distressed, or a company might be more distressed than we thought about.

The other thing, too, is the dividend history. And I think Jurrien mentioned this earlier. But thinking about a company, how long have they been paying? Are they growing their dividend? Has this been consistent? So those are things that are really important, as well, and also may have that relatively predictable feeling. It looks like that maybe near term or medium term risk, so the dividend might be up a little bit less than somebody with a higher yield. So those are often usually more mature, relatively stable companies that we're actually taking a look at.

So I would look at all of those things before just jumping in to making a decision. Sometimes you might find something a little bit higher yield. But like Jurrien said, there's no free lunch. You want to make sure that you take a look underneath the hood of the company.

HEATHER H: Great ideas there. Good things to keep in mind, and think about and investigate. I did also want to mention, if you do want to investigate a little bit further, and you want to deeper dive into which stocks pay the highest dividends dividends, our partners at Fidelity Viewpoints have a great article. You can find it at Fidelity.com/HighDividendStocks if you're looking for this in print form.

Heather, so we have been getting a lot of viewer questions about dividend paying ETFs, as well. So I was hoping we could talk about how they work and how they differ from individual dividend paying stocks. Just to give you a couple of viewer questions on the topic, we got a question from Jamie who asked, are dividend ETFs a good investment in the current market environment? Also, Patrick, another one of our audience members asked, are dividend ETFs good during 20% to 30% market declines? So what would be your response to Jamie and to Patrick?

HEATHER K: Yeah so first up, I'd like to define ETFs. And this is a question by the way that we get all the time. ETFs are baskets of investments that trade on an exchange like stocks. And they have risen a lot in popularity with investors, thanks to costs, that might be a little bit more competitive, ease of trading. And there's a lot of other potential benefits. If the underlying stock in an exchange traded fund, or an ETF, pay dividends, the ETF is going to pay dividends, as well.

Compared with buying an individual dividend paying stock, investing in ETFs could potentially provide broader diversification and some additional tax efficiencies. In terms of finding ETFs that focus on dividend payers, I would look for what index is tracking, but most importantly, the objective of the ETF. There are ETFs that are available that are specifically created in order to help out with dividend income, or they look at some of those aristocrats.

I don't think it's a good idea for investors to use ETFs to try to time the market, nor do I think that you should with individual stocks either. Instead, look at whether or not an ETF is right for you and what you're investing in, and understand it, and also compare it. There are tons of ETFs out there, new ones that come every single day. So it's really important to understand truly what you're investing in.

Now, typically, there are two ways that dividends typically pay out in cash, or to payout. It's usually in cash, or in rare cases, you might even see stock dividends. It doesn't matter. Either way, if you're an ETF holder, you're still going to get those dividends inside of the ETF.

HEATHER H: All right. So know what you're investing in. Don't time the market. Always good to keep in mind. And we also always like to leave our audience with resources and tools when possible to help further your education. So let's talk about what might be a good place to start researching high-dividend stocks. And Heather, I know you're a financial guru here with tools, financial tool guru. You know the ins and outs of all of the free tools that we provide here at Fidelity. So can you share one with us for investors interested in this?

HEATHER K: Yeah, so we actually have a lot of great tools, but one in particular I'm thinking about—and actually, I'll talk about a couple of them. But one in particular that you can actually do some research on how high-dividend stocks is through the Fidelity Stock Screener. So if you're a Fidelity customer, you have access to that. And you can screen for all things that we talked about during the session today dividend coverage ratio, price, performance. And you can find that screener at Fidelity.com/FidelityStockScreener.

So given all the risks that we talked about today, Heather, I ran a screener for the highest dividend-paying stocks of companies with strong dividend coverage ratios, positive expected growth, and a few other metrics to filter out those financially distressed companies. And the results are on the screen. I want to make sure everybody knows this, and I think this is my disclosure here. The companies listed are not recommendations of Fidelity, but I just wanted to share with you how you could see the stock screener and how you could use it with your research.

Most of the companies are offering dividend yields between 2% to 4%, and that's as of September 5th. Remember, that's going to move depending on the movement of the stock itself. For those of you who are Fidelity customers, there's also another area. I call it a hidden gem behind the login, of course. If you head over to Fidelity.com and click on Products, and then click on Investing and Trading, there's an area midway down the page that says Getting Started.

That will allow you to access a simplified screener. It's a little bit newer to Fidelity.com, but it's something that a lot of folks are excited about. And you can see here that there's actually one tab there that highlights income. So those are some areas that you could do to jump out and get started with quickly.

HEATHER H: And if you didn't write that down, don't worry. Just go to Fidelity.com/MarketSense, and we'll have all that information as soon as this episode is posted, which will happen within the next 24 hours. Also, by the way, I should mention we have an ETF screener tool, as well, right, Heather? And you can find that at Fidelity.com/FidelityETFScreener. Anything else that we missed in this conversation before we have to wrap, Heather? Final thoughts.

HEATHER K: I would say this. If you want to leave the research to a professional, you can also invest dividend-focused mutual funds. We also offer separately managed accounts that focus on dividend-paying stocks. Those are different, of course, from mutual funds, in that investors own the underlying stocks. So rather than owning a share of a fund, you still get the potential benefits of professional management and tax management, and have access to those individual securities.

And finally, it's really important to reiterate that dividend-paying stocks may feel predictable. I've said this probably a couple of times here, but they're not as predictable as fixed income. So you might want to consider even something along the lines of those managed solutions, annuities, individual bonds. Though, in my opinion, those are better sources of predictable income streams. And absolutely, you still need to do your research there. But I would say that those are the things that I would want to highlight the most.

HEATHER H: Particularly if you're looking for predictable income because of the stage of life that you're in, perhaps if you're nearing or in retirement. So we are just about out of time, but we haven't had a Timmer's take in a while. So Jurrien, take it away. What's on your radar right now?

JURRIEN: Well, right now, of course, it's the Federal Reserve. So we had Chair Powell give his speech at Jackson Hall. We got the meeting coming up very soon. We have a leadership change in the works next year at the Fed. We know all the political stuff that's happening around monetary policy. So will the Fed cut? My guess is that they will. By how much? Probably 25 basis points. Will there be dissensions? Will there be people saying, no, we need to do 50? What does Powell say in the press conference about, again, threading that needle between price stability and employment?

So that'll be something very interesting to watch. Not all Fed meetings that interesting, but I think this one will be.

HEATHER H: This one's going to be a good one. I'm going to bring the popcorn, and then we're going to dissect it afterwards, Jurrien. We covered a lot today. But hopefully, thanks to Heather Knight, you've got a better idea now on how to research dividend stocks and use our screener tools. We just want to take another look at those tools we mentioned before we go. Fidelity.com/FidelityStockScreener, and the Fidelity ETF Screener, ETP Screener, which can be found at Fidelity.com/FidelityETFScreener. By the way, those are forward slashes. Both are free tools, but you do need to be Fidelity customer.

Also, before we go, we just wanted to mention to you that we've got a really exciting event happening tomorrow. It's our first ever Fidelity Front Row live. We're going to be bringing in some of our top investing pros at noon Eastern tomorrow to provide some timely market insights, just like we provide you here with every week here on *Market Sense*. You're also going to have the chance to ask your investing questions live. So that's exciting. You can still Reserve your spot right now at FidelityEvents.com/FidelityFrontRow2025.

All right. On behalf of Jurrien Timmer and Heather Knight, felt good to be back, guys. Really missed you. Appreciate the time. I'm Heather Hegedus. Remember, we are on live Tuesdays at 2:00 Eastern with the replay available shortly after, and also, wherever you get your podcasts. Take care, everybody.

[1]Fidelity Viewpoints, July 23. 2025: www.fidelity.com/learning-center/trading-investing/high-dividend-stocks

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