

# *Fidelity Viewpoints®: Market Sense*

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## TRANSCRIPT

### SPEAKERS:

Heather Hegedus Jurrien Timmer Alice Joe

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**HEATHER HEGEDUS:** Hi, everybody. Thank you so much for making the time today to join us for *Market Sense*. I'm Heather Hegedus with Fidelity.

So as we are coming on the air to you right now, lawmakers in Washington have been unable to reach an agreement to avoid a government shutdown, which is creating some uncertainty in the markets. Just a reminder, the deadline to reach a deal is tonight. So it's hours away at midnight, and it could impact some critical economic data that our team is going to be talking about today that's set to come out at the end of the week.

So I can think of nobody better today to join us to break this all down for us than Alice Joe, who is a Senior Vice President and CFA here at Fidelity. Alice is on our government relations team down in Washington, DC, and she's going to be getting us up to speed on the very latest negotiations happening behind the scenes.

And then we're also going to broaden the discussion for you today with a lens towards investing. And we've asked Alice to share some of the other policy headwinds and tailwinds coming out of Washington at the moment that may have the potential to impact the markets in the future.

And from Washington to Wall Street, today is the last day of the third quarter. Hard to believe September is over. And quarter three is poised to end on a strong note for stocks, with the S&P up more than 13% year to date. But we did get some new data points showing consumer confidence is weakening, with job market concerns and inflation remaining tame but sticky.

So we're going to get into all of that today with Jurrien Timmer, of course, Fidelity's Director of Global Macro, who is joining us today from just across the pond in London. And a big thank you to both of you, Jurrien and Alice, for making the time, while I right now we are all watching and monitoring the situation very closely.



**ALICE JOE:** Yeah, happy to be here, Heather.

**JURRIEN TIMMER:** Yes, good evening to both of you from London.

**HEATHER:** Good evening to you, Jurrien. Good day to you, Alice. And as I said, today is Tuesday, September 30, the last day of the third quarter. Jurrien, in general, we've continued to see a bullish streak since the Fed cut rates by a quarter percentage point. The market continues to reach new highs, but we have this government shutdown looming now. We've got tariffs still in play. We have that jobs data showing the jobs market is softening, Jurrien.

We're going to be talking to Alice about all of those factors in just a minute. But first of all, I wanted to ask you, Jurrien, what do you think is happening here? Do you think all of these worries at some point could weigh on the market, or do you think this bull market is going to keep going?

**JURRIEN:** Well, there's a very, very old saying on Wall Street that the market likes to climb the wall of worry, and that certainly has been the case for some time now. And so with the third quarter coming to a close, this bull market, which started in October of 2022, is about to reach its three year anniversary or birthday. And of course, the shutdown is always something that's on everyone's mind.

But remember, markets are what we call long duration assets. So it's a market of stocks. It's not a stock market. And the stocks that are in the market, the big ones that are driving the market, are benefiting from very strong fundamentals, strong earnings growth. There is some pretty strong renewed momentum on the earnings front. And we'll get earnings season in a couple of weeks. And so the market has been riding that wave.

And of course, we've had the tariffs, and now we have the shutdown. But we also have the big beautiful bill, which has created quite a capital spending boom. And of course, we have the whole AI story, which sometimes is hard to define, but we know it's very, very powerful. And so all of these things together, in addition to a bond market that's been very, very quiet, the 10 year yield is around 4.15%, and a Fed that recently started cutting rates again. That's fuel to the fire for the bullish sentiment.

And so strong earnings with low interest rates is a pretty good combination. So again, markets are a long duration asset. And I think if you're wondering why isn't the market reacting more strongly to the prospect of a shutdown later today, it's because the markets are focused on those fundamentals. Which is not to say that the shutdown can't have an effect, but I think the initial response is let's focus on earnings and interest rates and go from there.

**HEATHER:** Markets still focus on the fundamentals and it's a market of stocks. I like that, Jurrien. I like to think of it that way too. All right, Alice, let's bring it in here and talk about this looming government shutdown. So as I mentioned, Congress has until midnight tonight to reach a deal or pass a continuing resolution. Probably hear people talk about CRs, a Continuing Resolution. And that's a temporary funding measure that allows the government to continue operations.

As Jurrien likes to say, Alice, we've seen this movie before, right? But I was hoping you could talk about the major sticking points this time around, if you see anything different this time around, and whether you foresee a deal happening anytime soon. Because the last we heard from both sides of the aisle, which was last night after a White House press conference, a White House meeting, rather, they seem pretty far apart, both sides. So how do you see this playing out at this point?

**ALICE:** Yeah, I mean, Heather, there certainly hasn't been a lack of drama in Washington over government funding. And you mentioned yesterday the President and congressional leaders on both sides of the aisle met, but they walked away with no agreement to avoid the shutdown that's coming.

Negotiations, really, they've been at a stalemate, as Republicans have been seeking a seven week extension of the current government funding. As you mentioned, it's also called the continuing resolution. But at the same time, Democrats have been demanding that any government funding include extensions of the Affordable Care Act premium tax credit enhancements that are set to expire at the end of this year. They're also asking for a complete rollback of the changes to Medicaid that was made in the one big, beautiful bill that Republicans pushed through just a few months ago.

Now, if they were to include these requests from Democrats, it would cost somewhere in the neighborhood of about \$1 trillion. So it's pretty hefty there. Clearly, Republicans aren't yielding to their demands, and Democrats, as of this morning, have yet to come back with a less costly proposal, or one that perhaps Republicans can support.

I think one driving factor to keep in mind with the debate right now is that Senate Democratic Leader Chuck Schumer, he faced quite a bit of backlash from his party when he sided with Republicans at the very last minute to keep the government open back in March, when we had this debate back then. So given that he's facing some pretty strong political pressure to extract something from Republicans this go around, even if it means shutting down the federal government for a short period.

Obviously, we're about 10 hours away from the midnight deadline, and it becomes dire by the minute. I will say that the Senate is set to vote, once again, on the House passed—sorry, the House passed continuing resolution today, but it's expected to fail. And they are planning, Senate Republicans are planning, to bring the continuing resolution up for a vote every day during the shutdown to put pressure on Democrats.

But I will say Democrats, they're dug in, at least for right now. I think what's different this time from previous funding fights is that there's no real clear exit ramp or alternative. So I think this shutdown could last for a while. I will say, though, that we are starting to see some cracks from a few in the Democratic Party, and they're trying to find a way to avoid the shutdown, but the numbers aren't quite there yet to change the trajectory of where this is headed.

**HEATHER:** And the numbers aren't quite there yet, just to remind folks out there at home, because Republicans have the majority on both sides of Congress. So that's part of the pressure that Minority Leader Schumer is feeling right now, I'm sure. So let's talk about what happens if at midnight tonight, Alice, they fail to reach a deal. Can you remind us what services are affected during a government shutdown and what this means for you and me, and potentially for the economy as well?

**ALICE:** Yeah, typically in a government shutdown, every federal agency that gets appropriations from Congress has to shut down. But there are some essential services that focus on national security, law enforcement, air safety. Those services will remain available to Americans. So things like the military, which did get an extra boost from the One Big Beautiful Bill Act, as well as law enforcement will still be in place.

Air traffic controllers will still be working, as will TSA agents. So if you're traveling, those services will still be available. Emergency medical care and some public health emergency responses will still be operating. There are some mandatory programs. So these are programs that aren't funded by Congress through the appropriations process. They're funded through other means. But those programs aren't subject to appropriations and therefore will continue.

So what does that mean? That basically means that Social Security payments, SNAP benefits will continue to be distributed. You'll see Medicare Medicaid programs continue to operate, and unemployment compensation will continue to be paid. Generally, federal government employees are not paid during the shutdown, but they will automatically receive back pay for the period that they are either furloughed or if they're working in essential service, there will be some that work without pay, but they will be paid back once funding is restored.

Now, the question is, why does this matter to investors? Well, those employees that are furloughed long term could affect the gathering of critical economic data. I know that's important for this show. Speaking of the data, the Bureau of Labor Statistics, they're the agency that

releases the monthly jobs reports. They will cease operations according to a Department of Labor shutdown plan that was put into place just yesterday. And this, of course, could complicate some decision making for the Federal Reserve, who does rely on some of that data.

**HEATHER:** So, Jurrien, that important jobs data would be delayed. Any thoughts on the potential impact there?

**JURRIEN:** Yeah. So I would say for the markets, the delay of economic data, of course, is highly relevant. It's relevant for policymakers as well, like the Federal Reserve. And so that is one of the direct consequences of a shutdown. And it makes our lives, I wouldn't say it makes it more difficult, but when you have times where economic data are very relevant, and for instance, the jobs data, we've been talking about that for a few shows now.

The jobs data have been softening. And so we're all kind of wondering whether that softening turns into something more. And so yes, so this will delay it. But again, those data will get released when the government reopens again. But it's definitely one of the clearer consequences of a shutdown for the financial markets beyond any economic impact.

**HEATHER:** And let's talk a little bit further with you, Jurrien, for a moment about what history tells us about the impact of government shutdowns on the stock market. So we've had 10 official government shutdowns since 1980. From a historical lens, do you think this is something that investors should be concerned about?

**JURRIEN:** Long term investors should not, in my view, just because, I mean, you can almost think of a government shutdown like a storm or like a hurricane, that temporarily slows down economic activity, but then it gets cleaned up and it's back to business. And every other shutdown historically has had that effect. And the economy has to run, the government has to run. So some of this is political, scoring political points and things like that, as Alice mentioned.

So the market generally looks through this, because these are short term disruptions, if you will. But as long as they don't affect long term drivers for the stock market earnings, interest rates, then the market really does look through it most of the time.

And even when we had one in 2018, where the market was down and you can see that in the blue line, the market was not down for that reason. The market was down for other reasons, and it happened to rebound right around that time. But it was not because of the shutdown.

So generally, the market has bigger fish to fry. I hate to put it in such blunt terms. But corporate earnings, interest rates, the state of the economy, the state of the consumer, the jobs market, those are the things that the markets are mostly focused on.

**HEATHER:** Market has bigger fish to fry. And historically speaking, the market generally rises after government shutdowns are over, correct?

**JURRIEN:** Well, the market generally rises anyway. Not always, but it rises 60%, 70% of the time. And the market doesn't like uncertainty. So the shutdown does create some temporary uncertainty. And once that uncertainty passes, the market can go back to its business as usual. So generally, if the shutdown is resolved, the market can say, OK, fine, let's move on and it goes back to business.

**HEATHER:** What about the bond market? Let's talk about that, though, too, Jurrien. I think sometimes it's easy for folks to conflate government shutdowns and deficits. There are two different things here, and I think that's really important that we make that distinction on this show today as we try to educate everybody watching and listening. We know that bonds are connected to deficits, but is there a direct impact with the bond market and government shutdowns?

**JURRIEN:** Yeah, so that's a very good question. And this is an important thing to highlight, because shutdowns and these debt ceiling cliffs that pop up from time to time, they feel similar. It's political drama and it's threats and this and that, and then a deal is made to either lift the debt ceiling or reopen the government.

And there are two different things. And one thing that's important to note is that when we have a debt ceiling cliff, if you will, the ability to issue debt, of course, is impacted. And if you can't issue debt, you can't spend money. And so they're related in that sense.

But for the shutdown that we're presumably about to have, interest payments on the debt are not affected. So that's one of the exemptions, as Alice mentioned earlier. And so there is no risk that the government will default on its debt. And we call that a technical default, because it's not like, well, it's not a real default, but an interest payment could be missed when you have a debt ceiling showdown. But for the shutdown, there will be no interruptions in interest on the debt. And so there is no fiscal risk there of the government defaulting or debt getting downgraded. I mean, it could happen, but that's not really what this is about.

And again, just coming back to the economic data for a moment in terms of what it means for the bond market, one thing to remember is that we all want to know what the data is, of course, because this is what we do. But the Fed needs to know what the data is also, because it's setting policy. And in that sense, I guess it's good that the Fed, just a few weeks ago, made a policy change in cutting rates, and it's not hanging on by a thread right now waiting for the economic data.

I mean, it might be, but there's no imminent policy action that otherwise couldn't happen. And that's important at times when policy needs to change rapidly, and we're not in one of those times. But if that were the case and all of a sudden you're not getting the data, then you're flying blind. And so that would be a big deal at certain points in the market cycle. But again, today that's a little bit on the back burner, because no one really expects the Fed to do anything for the next couple of months anyway.

**HEATHER:** Sure. Yeah. You make a good point there. The timing could certainly be worse. But I do want to bring Alice back in here, Jurrien, since we have her here today, to talk about some of the other policies that Alice is watching right now in Washington, too, and the ability to impact all the things you and I talk about, Jurrien, the economy, the stock market, corporate America.

Tariffs may be a topic that investors, quite candidly, may beginning to feel a little bit weary hearing about these days. But the fact of the matter is, as you all well know, they have not gone away. So I was hoping while we have Alice here, Alice, you could walk us through which countries have tariff pauses that are expiring and what's still up in the air that investors might want to pay attention to, that we might want to have on our radar.

**ALICE:** Yeah, absolutely. So tariffs absolutely are still in play, with a 10% baseline for all imports for any country. But there are some countries that do have some higher tariff rates, like India, Brazil, South Africa, and many others. One country that we are watching very closely is China. If you recall, back in August, the US and China agreed to a 90 day pause on the higher tariffs that each country imposed on each other.

But that pause is set to expire on November 10. So that's coming up pretty quickly. I think without further agreements between the two countries, tariffs, of course, on their imports would surge, perhaps into the triple digits and potentially risk further straining trade relations between the two countries.

We're also seeing some new sectoral tariffs being imposed. More recently, President Trump announced a 100% tariff on branded or patented pharmaceutical imports, as well as a 25% tariff on big or heavy trucks, and a 50% tariff on kitchen cabinets and bathroom vanities. Now, these new tariffs here for the sectors are going to go into effect tomorrow, starting on October 1.

Of course, there's a number of ongoing legal challenges with respect to the tariffs. And as we know, the Court of International Trade and the Federal Circuit Court of Appeals has ruled that President Trump exceeded his authority in imposing reciprocal tariffs under the International Emergency Economic Powers Act.

Now, enforcement of those court decisions have been stayed, or at least paused, to allow time for the Supreme Court to take a look at the case. And right now, oral arguments are scheduled in the Supreme Court for November 5.



So for right now, tariffs are still in place, but that could change depending on where the Supreme Court comes out or if other countries are successful in negotiating a trade agreement with the US.

**HEATHER:** Hey Jurrien, how are you thinking about tariffs these days? Just to remind our audience, we saw the markets dip down into correction territory back in April when the President announced the tariffs. Since, of course, gained it all back and then some. Is this still something investors should be concerned about? How are you thinking about tariffs?

**JURRIEN:** I mean, the tariffs, of course, are real. By our analysis, about 3/4 of them have started to be felt. And most of the impact is coming from the consumer paying higher prices and the companies importing the goods. So there is a cost. The question always is, and one of the frustrations in our work, is that it's hard to attribute a single outcome to a single cause, because there's always a myriad number of things going on.

And so we have the tariffs, which clearly are a cost to someone. I mean, they are an import tax, basically, and our data shows that it's mostly paid for by someone in the US, whether a company or a consumer. But on the other hand, we have the one big beautiful bill and the expense accounting that that brought and the capital spending that has been unleashed as a result of that. And then, of course, we have this whole AI boom that is bigger than probably all of them. And so it's very hard to say, OK, this thing is happening and it's having this impact. So at this point, the market is riding a wave of optimism despite the tariffs.

And of course, back in April when we got that first round of news on April 2, the market was pricing in really a worst case scenario, and it's dialed that back because the policy was dialed back. But the tariffs are still happening, and they will extract a cost of some sort. But it's offset by more bullish tailwinds right now.

**HEATHER:** All right. Under the category of headwinds to this bull market and beyond, there's also immigration policy and its impact on the labor market, which is something the Fed is watching closely. You had mentioned AI could have an impact on that, Jurrien. Alice, I was hoping you could lay out for us which immigration policies you're watching the most closely right now that could have the most impact on business getting done here in the US, to Jurrien's point.

**ALICE:** Yeah, so obviously with this administration, we've seen a huge shift in terms of how they've addressed immigration policy, and we've seen increased scrutiny for businesses in terms of the audits, intensified I-9 employment eligibility verification, and other things, creating huge administrative burdens and operational disruptions for a lot of businesses, particularly in those sectors like transportation or agriculture or construction and the like. And so this increased enforcement certainly has led to some workforce shortages there in some industries.



The one thing I will say is that industries that require more highly skilled workers are also now facing a pretty big challenge, because more recently, the White House put out a proclamation that now imposes a \$100,000 fee on any new H-1B Visa petition. So H-1B visas are granted to those who are highly skilled people, who are tech workers or physicians, that require lots of schooling to be credentialed there.

I would note that this \$100,000 fee is per petition, so that means it's not per employer. And so if you're a company that employs a lot of H-1B Visa workers, then that fine could get pretty hefty there.

**HEATHER:** It's per potential employee you mean by per petitioner, right?

**ALICE:** Yes, per employee. And as I mentioned, this fee targets high skilled workers. So we could see rural areas that need hospital and health care workers see a shortage of physicians. And then, of course, there could be some really huge implications for innovation in America, especially now in the age of AI. You mentioned that we're in an AI race right now. That's going to hit a lot of tech oriented companies, or those companies have invested really heavily in technology.

**HEATHER:** I wanted to end things sort of on a positive note, though. We always try to do that, if we can. And I do want to hit on the headwinds to this market, too. And you mentioned the one big beautiful bill, Jurrien, as a potential tailwind from a policy perspective.

Of course, it's now law, and it comes with a permanent extension of corporate tax breaks, which seems to be a positive development for this bull market. Would you agree with that assessment, Jurrien, that that's a positive development? And how much of a potential tailwind do you see it being?

**JURRIEN:** Yeah, so clearly the expensing of R&D and things like that, the extension of the tax cuts, deregulation, these are all obviously positive things for the market. And then you sprinkle in some Fed rate cuts, that doesn't hurt either. The bond market is very quiet. The 10 year yield's been in a range of 4% to 5% now for a few years. And whenever it kind of gets up to 5%, the market starts to get a little nervous, but we're closer to 4%.

And so right now, the market's kind of in a sweet spot. Earnings growth is accelerating. Earnings estimates are being revised up. The bond market is quiet and the Fed is cutting rates. And we have, again, this whole AI boom, which we're kind of wondering, does that boom become a bubble at some point? It doesn't seem to be right now. But there are some pretty strong underpinnings.

But of course, not to rain on the parade, there is no such thing as a free lunch, of course. And so if you're getting all of that, the market tends to get pricier. And the valuation side is not an easy nut to crack, because the S&P is trading at about 25 times earnings. And this is where diversification comes in. Global markets are now participating, and they are growing earnings now as fast as in the US, but at a lower multiple. So a diversified portfolio is always a good idea, especially right now.

**HEATHER:** Global bull market. All right. Well, just fantastic insights from both of you today, Jurrien and Alice. I want to say a big thank you to both of you for lending your time and perspective today, with you being overseas, Jurrien, and everything going on as Alice and her team and so many teams here at Fidelity continue to monitor all of this in real time.

And Alice, as you said, no clear off ramp or exit ramp at this moment. So I know you're going to continue to be around the clock working with your sources and watching the very latest. And that's why this would be a fantastic time to bookmark [Fidelity.com/MarketVolatility](https://www.fidelity.com/MarketVolatility), where our partners at Fidelity Viewpoints, which is our newsletter here at Fidelity, are constantly updating that Market Volatility page.

We've got an article up there right now with further details on the historical perspective of government shutdowns and what it could or might not mean for the markets. And you'll also find the replay to this show available up there as well, if you missed any part of it.

On behalf of Jurrien Timmer and Alice Joe, thank you so much for your time today. And remember, we're on live every Tuesday at 2:00 Eastern. You can catch us then with the replay available shortly thereafter, or you can catch us if you're on the go wherever you get your podcasts. Take care, everybody, and Jurrien, safe travels to you.

<sup>1</sup>Fidelity Viewpoints; September 18, 2025: What does a government shutdown mean for you? | Fidelity

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