Fidelity Viewpoints®: Market Sense

Week 129, January 31, 2023

TRANSCRIPT

SPEAKERS:

Jim Armstrong Jurrien Timmer Leanna Devinney Stacey Watson

Jim Armstrong: Hey there, thanks for joining us for Market Sense. I am Jim Armstrong with Fidelity. 2023 is off and running. While inflation may be cooling, higher prices are still nagging, and the possibility of a recession looming. So, if you're thinking of making some financial resolutions for this coming year, or you're wondering how maybe you can stick to the ones you've already made, you will want to stay with us. We've got a great lineup of panelists who can help you make the most of those potential resolutions. To get our big markets picture today, we are happy to be joined, as often we are, by Jurrien Timmer, Fidelity's Director of Global Macro. He got some insights into how to stay on track with your financial resolutions in 2023 And we're also going to be talking with Leanna Devinney, who's a Massachusetts based branch leader who spent years working with people, one-on-one talking about financial planning. And we're also very excited to have Stacey Watson back with us again, her return trip to Market Sense. She's the head of Life Events at Fidelity, and she is part of the team who conducted Fidelity's most recent Financial Resolutions study. Thank all three of you for making time to be with us today.

Leanna Devinney: Excited to be here.

Jurrien Timmer: Nice to see you all.

Stacey Watson: Thanks for having us.

JIM: Absolutely. Hey, so today is Tuesday, the 31st of January. And Jurrien, let's start with you if we could. Of course one of the things making headlines this week is the Fed's upcoming meeting where we are expecting another rate hike, relatively small in comparison to the ones we've seen recently, arguably necessary to tame inflation. I'd love to hear your latest thing on whether or not the Feb's actions could trigger a recession or the so called hard landing? What are you seeing there?

JURRIEN: Well, so the Fed has gone from the stage of just frontloading a lot of big rate hikes, and in part it did that because it really waited too long to raise rates in the first place. But we are at 4 3/8% now, presumably going to 4 5/8ths if the Fed does 25 basis points which is what generally expected. So we will go from 0 to 4 5/8, presumably on our way to 5-ish, give or take a quarter point or so in the coming month or two. And then really, at that point the next chapter begins because then we will have to figure out how long the Fed will stay there, right? So at least we are kind of past the point where we were last year where the Fed kept moving the goalpost. We kept thinking, okay the Fed's going to three and a half, now it's going to be four, now four and a half because inflation proved to be a much bigger problem than certainly most people expected. The good news is, of course inflation is starting to come down. The CPI peaked at 9 % increase last June, we're down to around 5-6%. The PCE, another version of an inflation measure, is below five. So the good news is that it's working, our inflation is starting to come down; but at the same time, the economy, parts of it at least, are starting to show and now we are in the midst of 4th quarter earning seasons. And earning season has been okay so far, 70% of companies beating estimates by about 2 percentage points.

But when you look at estimates going forward, they are starting to soften. So per your question, the big question that we are all asking here in the markets is: Has the Fed already done so much that a recession becomes the likely outcome? And, when you look at the shape of the yield curve, difference between short and long rates, you look at how far the Fed has raised rates beyond what would be considered a neutral policy, which is around 3%. You look at past cycles and you know; recessions have happened as a result. And even then, the conversation is not over because you can okay, say the Fed is creating a recession which it has often done on the past because the Fed has very blunt instruments: Rates, balance sheet. With very much forward-looking implications, and it's setting policy looking in the rearview mirror at what inflation has done. So it is a very inexact science, prone to policy errors, and the market, reasonably is saying that could happen again.

But even if you knew all of that, it still does not necessarily tell you what the markets are going to do because the market always discounts the future, the market, of course sees what the yield curve is doing, it knows what the Fed is doing and so, the market already knows a lot of this. And therefore, it is not as simple as saying well we are going to have a recession therefore you need to sell everything. Like, that's not how the markets works because the markets are always anticipating. So the big news this week of course the Fed today, I am looking for language that will tell us how long – not how far the Fed is going to go because I think the market has a sense that it will be around five, but really the big thing will be how long will it stay up there before it eventually returns back to a neutral policy.

JIM: Thank you for that background there, and I think that is a great segue into a couple of questions that we have for Stacey this week who is – really, she and her team try to have their finger on the pulse of customers and what they are thinking and feeling when it comes to their own finances. And against, Stacey, the backdrop of everything Jurrien just explained there. A looming recession, inflation that pretty much characterized all of 2022, I can't imagine the way we would have escaped it, everything from gasoline, to eggs, to housing, right? I am going to assume your most recent study probably didn't detect a ton of optimism among consumers.

STACEY: Yeah, you are right, Jim. I mean people are really hurting. In this most recent financial resolution study that we did, more than a third of Americans said they worse off this year than they were last year. And that record high inflation is very much top of mind for them, as well as the economic uncertainty that Jurrien was just talking about. And I would say in terms of resolutions, overall Americans are proceeding with caution and they are being very practical in the resolutions that they are making. They are building up their emergency savings or maybe they are paying down their debt. But for the first time in the 14 years that we have been doing this study, more people are saving for the short term than the long term. And I think the thing we need to think about though is, it's a balance, right? You can focus a little on the here and now, is a little on the long term because really fulfilling your dreams is what makes everything all worth it.

JIM: I feel like and I guess I have a tendency to be more optimist than pessimist. But I feel like that makes sense, right, Stacey, that a really practical, concrete way to address the concerns going on around us that we can't control.

STACEY: Yeah, and that is why we are referring to 2023 as the year of living sensibly. But I would say it is new year's – it is still January – and financial resolutions is really a great way to kickstart your year. And that is probably why seven in ten Americans are making one this year. And the types of resolutions that people are making are similar to what we have seen in studies in the past: Save more; spend less; and pay down debt. And to really stick to any resolution, the key is to make sure that your goal is clear and specific and realistic. And then to set aside a specific amount every month so that you can really track your progress and watch small changes add up. The last thing I would say is don't be afraid to ask for help. New year's is a great time to reach out to a financial adviser and we also have a lot of really great online tools that are free that can help you create a plan.

JIM: Excellent, excellent reminder there, Stacey, thank you for that. As a matter of fact we took to the streets of Boston not to long ago to talk to people, to investors, just like folks watching and listening right now to hear what they had to say and what they were thinking about the new year and their finances. So lets have a listen.

ALLY: Hi. I'm Ally Donnelly. We've hit the streets of Boston to check in with people on the economy, their finances, and what money resolutions they are making for the uncertainty of 2023. How are you feeling about your personal finances?

SPEAKER: Not good.

SPEAKER: It's pretty crazy. It's a lot.

SPEAKER: I don't like that daily stress in my life, you know?

ALLY: We get it! According to Fidelity's 2023 New Year's Financial Resolutions Study, Americans are feeling less than optimistic about the year ahead. More than a third say they're in a worse financial situation than last year and only 65% think they'll be better off in the coming year.

SPEAKER: I am affected by it like everybody else. Grocery stores are much more expensive, but we can't look at it in isolation. It's a worldwide problem. It's global.

ALLY: Though fear of political uncertainty, unexpected expenses, and recession are significant concerns, Americans pointed to inflation as their top financial setback of 2022.

SPEAKER: Food. Food's really expensive. I did not expect it to be that bad.

SPEAKER: The rent is too damn high.

SPEAKER: No idea what the financial stability of the future is going to be, but you know, can't let that bring you down.

ALLY: About half of the people in the Fidelity survey say they'll try and live sensibly in the new year or plan ahead. Positive strategies echoed by the people we talked with. So what changes have you made?

SPEAKER: Like cutting back, like, you know, do more sandwiches instead of cooked meals all the time, you know, and working from home really helped.

ALLY: Nearly half of people who say they'll set New Year financial resolutions say they'll be more conservative. 53% will focus on shorter term goals like paying down credit card and other debt, building emergency savings, and planning for big ticket items. While fewer people will focus on long term goals like retirement, college savings, and health care.

SPEAKER: It's just like trying to fight inflation but trying to do that through investing. So doing my best and I know everybody's hurting.

SPEAKER: Just kind of making sure that I have, you know, that cash on hand just in case.

ALLY: On the streets of Boston, I am Ally Donnelly. Talk to you soon.

JIM: So excuse me. Leanna, I would love to get your thoughts on what we all just heard here. Real concerns, real questions that people have. I know we mentioned this off the top, you and your team certainly meet people like that, literally almost every day of the week, right? How do you help them get their heads around any challenges or resolutions that they might have financially in the new year?

LEANNA: Yeah, absolutely and we do. And it was an impactful clip to hear the concerns and that is what we are hearing day in and day out, and it is nothing new. Things are expensive, there is a lot of uncertainty out there. So when we help our clients, it really does come down to first understanding what the goal is, really what are we planning for so we can help create the plan to help reach the goals. So I always say first it comes down to the what and then we will get to the how we are going to accomplish it. So just to say again, making your goal really specific. I know Stacey just alluded to this as a result of the study as well, and then we can reinforce that specific goal with some analysis, resource tools, and putting a plan together. So, you know, for example, we're also hearing a lot on setting up that emergency fund. We want to say, okay I want to have three to six months' worth of my expenses in a savings fund; liquid saving. How do I get there? Well, we might automate savings, we might have to pay down debt to get there, all ways we can help our clients.

JIM: I want to also ask you about the idea of setting aside time to discuss finances. We had a webcast a while ago that had some great information about, partners, husbands and wives doing just that. So my wife and I adopted that after that webcast. We now have designate time where we sit down, we review our finances, and I find it to be pretty helpful, actually.

LEANNA: I love that you are doing it because life is really busy. And we don't spend time together talking about our finances, and I can't tell you how many times clients will come in, you know with their spouses: I want to retire in years but I haven't looked at this in decades, we haven't talked about it in decades, and I think I am on track but can you let me know and validate that we are.

JIM: Yeah.

LEANNA: So I would say absolutely, like pre-committing and doing some financial housekeeping is really important. So you can set a date on the calendar, have the conversation, communication is key, and also bringing loved ones into the conversation as well. And what I hear too is this really allows many to understand some of the natural biases we have or our money personalities. So just as an example, in many relationship, one's a spender, one's a saver. So it's kind of talking through that together, and getting a plan in place, we can find really helpful. Then get the healthy habits together so now we are going to put together a savings plan. We are going to automate it, we're going to use tools in this meeting, like, Jim, if you are having that with your wife every so often, well let's take a look and just make sure we are still on track so that is what we would recommend.

JIM: Love it, thank you for that. Jurrien, I wanted to ask you a question based on what both Stacey and Leanna were talking about there in terms of the lack of certainty; the unsurety of what is happening in the markets. It is January 31st right now and the month isn't over, but looks like it will be an up month for stocks. And there is an old saying that "as January goes so goes the year," meaning if January is up maybe the full year could be up? I don't want to jinx anything but what do you think of that idea, of a so called January Barometer?

JURRIEN: Yes, so the January Barometer is a very well-known and we can actually bring it back to the first week of January. So there is an adage that says that if the first week of January is positive then the whole month will be positive. And if the month is positive, the rest of the year will be positive. And that's called, as you mentioned the January Barometer. And, you know part of my job, and I followed that many, many years, and part of my job is to kind of always do a gut check, saying, is that actually true or is it just a market myth? And so it's a little bit of both. So, it is the end of January, it is going to be a good month, and historically that has had favorable implications for the rest of the year. And if January was a negative month, it would have unfavorable implications. But here's the rub, that's true for every month of the year. And so, I've back tested this. So any month when it's positive, the rest – you know the next eleven months are likely to be positive. And basically, all I am saying here or all that means is that markets tend to be in trends, right? The market tends to trend. And a trend in motion tends to stays in motion. I forget whether that was Newton or whoever that was that said that.

And so all this means is that markets tend to move in trends and that the trend currently is up since October. Doesn't mean it is going to continue, of course there are no promises, you only have probabilities. So I think there is some reasons to be optimistic based on the performance of January. But it has nothing to do with January. It could be March or April or August and we could be saying the same thing. So, that is the January Barometer demystified.

JIM: I will take it as a little potential good news, that's great. But I also just love, Jurrien, the idea of just a bit context there. We can take our heads up a second, stop focusing on maybe today's headlines and look back at a month or the potential for a year. So thank you for that. Hey, Stacey and Leanna, before we go, we would love to hear from you, against the backdrop of what Jurrien was just saying, Americans still facing rising inflation, concerns about mounting debt. What are concrete ways that they might start to think about achieving financial wellness in 2023?

LEANNA: I will start. So just I think a lot of us will feel good and financially well in kind of two areas. First, taking a look at your emergency fund, at your cash, and savings so, when life gets in the way that we have that. And it can really put us one step in the right direction there. And then today's rate environment making sure you are taking advantage of some of those competitive yields out there, getting a return on your cash. So, if it's just sitting there and it's growing little by little and it's safe, you know that's a great way to kind of set you up for success, that power of compounding. And then outside of an emergency fund, investing is a way to combat inflation over time. We've spent countless hours together on Market Sense sharing about the ways inflation can hinder our buying power but investing in that diversified portfolio aligned to the goals that you have, can help that.

STACEY: Hey, Leanna, that's great and what I would add to that is if you can swing it, saving a little bit more or paying down debt, even in small amounts, can make a big difference not only on your financial well-being but on your emotional well-being. The second thing I would say, if you can, make an additional payment on a loan or if you can shop around for a lower interest rate, that can also really help.

JIM: Yeah, great pieces of wisdom. Thank now that. It is harder and harder to find the low interest rates so shopping around definitely makes sense. Thank you for that. Thank all three of you, actually for taking the time to be with us today. For folks in the audience, we would love to hear from you. We covered a slightly different topic today, the idea of financial wellness and financial resolutions so if you are watching on Fidelity's website, you will actually find a really quick survey just underneath this video. If you can fill it out tell us what you thought about today's episode and also there is an opportunity to share what you think about some other potential future topics that might be of interest to you, we'd really appreciate you taking the time to do that. But again, the survey is only available if you happen to be watching right now on Fidelity's website.

As always, for everybody though if you have questions about making you financial plan or staying on track, or building some resolutions for 2023, or figuring out how to adapt to the shifting world around you, Fidelity is here to help. You can go online, give us a call, visit our website, download our app. Tons of ways to continue to learn more and to reach out and contact us. Again, tremendous thanks to today's Jurrien Timmer, Leanna Devinney, and Stacey Watson. Everybody, thank you, and have a great week.

Fidelity Investments 2023 Financial Resolutions Study Methodology: This study presents the findings of a national online survey, consisting of 3,020 adults,18 years of age and older. The generations are defined as: Baby Boomers (ages 58-76), Gen X (ages 42-57), millennials (ages 26-41), and Gen Y (ages 18-25; although this generation has a wider range, we only surveyed adults for the purposes of this survey). Interviewing for this CARAVAN® Survey was conducted October 17-23, 2022, by Big Village, which is not affiliated with Fidelity Investments. The results of this survey may not be representative of all adults meeting the same criteria as those surveyed for this study.

Information presented herein is for discussion and illustrative purposes only and is not a recommendation or an offer or solicitation to buy or sell any securities. Views expressed are as of 12/8/22 and 1/31/23, based on the information available at that time, and may change based on market and other conditions. Unless otherwise noted, the opinions provided are those of the speakers and not necessarily those of Fidelity Investments or its affiliates. Fidelity does not assume any duty to update any of the information.

This podcast is intended for U.S. persons only and is not a solicitation for any Fidelity product or service.

To the extent any investment information in this material is deemed to be a recommendation, it is not meant to be impartial investment advice or advice in a fiduciary capacity and is not intended to be used as a primary basis for you or your clients' investment decisions. Fidelity and its representatives may have a conflict of interest in the products or services mentioned in this material because they have a financial interest in them and receive compensation, directly or indirectly, in connection with the management, distribution, or servicing of these products or services, including Fidelity funds, certain third-party funds and products, and certain investment services.

Investing involves risk, including risk of loss.

Past performance is no guarantee of future results.

The value of your investment will fluctuate over time, and you may gain or lose money.

Diversification and/or asset allocation do not ensure a profit or protect against loss.

Stock markets are volatile and can fluctuate significantly in response to company, industry, political, regulatory, market, or economic developments. Investing in stock involves risks, including the loss of principal.

Foreign markets can be more volatile than U.S. markets due to increased risks of adverse issuer, political, market, or economic developments, all of which are magnified in emerging markets. These risks are particularly significant for investments that focus on a single country or region.

In general, the bond market is volatile, and fixed income securities carry interest rate risk. (As interest rates rise, bond prices usually fall, and vice versa. This effect is usually more pronounced for longer-term securities). Fixed-income securities also carry inflation risk, liquidity risk, call risk, and credit and default risks for both issuers and counterparties. Lower-quality fixed-income securities involve greater risk of default or price changes due to potential changes in the credit quality of the issuer. Foreign investments involve greater risks than U.S. investments, and can decline significantly in response to adverse issuer, political, regulatory, market, and economic risks. Any fixed-income security sold or redeemed prior to maturity may be subject to loss.

Fidelity Wealth Services provides non-discretionary financial planning and discretionary investment management through one or more Portfolio Advisory Services accounts for a fee.

Advisory services offered by Fidelity Personal and Workplace Advisors LLC (FPWA), a registered investment adviser. Discretionary portfolio management services provided by Strategic Advisers LLC (Strategic Advisers), a registered investment adviser. Brokerage services provided by Fidelity Brokerage Services LLC (FBS), and custodial and related services provided by National Financial Services LLC (NFS), each a member NYSE and SIPC. FPWA, FBS, and NFS are Fidelity Investments companies.

Fidelity does not provide legal or tax advice. The information herein is general and educational in nature and should not be considered legal or tax advice. Tax laws and regulations are complex and subject to change, which can materially impact investment results. Fidelity cannot guarantee that the information herein is accurate, complete, or timely. Fidelity makes no warranties with regard to such information or results obtained by its use and disclaims any liability arising out of your use of, or any tax position taken in reliance on, such information. Consult an attorney or tax professional regarding your specific situation.

Personal and workplace investment products are provided by Fidelity Brokerage Services LLC, Member NYSE, SIPC, 900 Salem Street, Smithfield, RI 02917

923295.206.0