Fidelity Viewpoints®: Market Sense

Week 152, August 1, 2023

TRANSCRIPT

SPEAKERS:

Heather Hegedus   Ryan Viktorin   Naveen Malwal

Heather Hegedus: Good afternoon, and thank you so much for joining us for *Market Sense*. I'm Heather Hegedus with Fidelity. Well, what an end of the week we had last week. In case you weren't keeping tabs on everything—maybe you were on vacation—first, Fed staff said they believe the US will avoid a recession in 2023, but it still raised interest rates for the 11th time in less than a year and a half to the highest level in more than two decades. But then, after that an inflation gauge that the Fed follows closely came in at its lowest rate in nearly two years, and that sent stocks rising with the Dow and S&P closing out their third winning weeks in a row last week.

So, to talk about what that means and what this all means for the bigger picture, too, we're going to be speaking with Naveen Malwal, CFA and Institutional Portfolio Manager here at Fidelity. We're also going to be speaking with Ryan Viktorin today. She's a Vice President and financial consultant in our Framingham, Massachusetts office, just outside of Boston. We're going to be talking with her about what that means for anybody who is either in or nearing retirement. Good afternoon to both of you. Thanks so much for making the time on this first day of August.

Ryan Viktorin: Hey, Heather. Thanks for having me.

Naveen Malwal: Hey, it's good to be here.

HEATHER: Well, happy August to both of you, as I just said. Just a quick note before we get started. I want to remind folks that Market Sense is meant not only to help you make sense of the markets, thus the name, but it's also meant to help answer your money questions. So, if you're watching us live, this is so exciting, you can submit questions to Ryan and Naveen in real time in the comments section, regardless of whether you're watching us live on our website or live on LinkedIn. And we just might use one of your questions on a future Market Sense episode or in our Viewpoints newsletter, which we'll have a QR code to at the end of the show, so stick around for that.

Also, next week—just want to put this plug in early we're going to be talking about three surprising investing ideas to consider with our director of quantitative market strategy and we just might use your question in that episode. So please submit those questions in the comments section as the show is streaming live. As for today though, Naveen, let's get started and we want to kick things off with you. So the Fed has now officially dropped their forecast for a recession, that it will happen this year, as I said at the top of the show. And that's fueling optimism that the Fed may after all be able to engineer this soft landing that so many of us were hoping for. We also got some other data points last week that indicate the economy is stronger than expected. So, I'd love to hear from you, first of all, about what you make of these developments and if you agree with the Fed that we are not going to have a recession this year?

NAVEEN: Right, so predicting recessions is notoriously difficult, so I'm not going to say I have a prediction. However, I would agree with the Federal Reserve that it does seem less likely that the US is going to tip into a recession in the near term. Now, the Fed was very specific, they didn't say we're never going to have a recession again. And as much as the economy is showing some recent signs of strength, over the longer run, over the last year plus now, we have seen a gradually slower growths trajectory here in the US. So, I'm hoping for the best; I'm hoping that inflation comes down, we avoid a recession, and we can all carry on. But just in case, I'm also just paying close attention to what's happening with the economy to just keep an eye out and make sure we don't tip into something that feels more volatile or more challenging for investors. So, so far, we have, you know, good corporate earnings coming in, a good job market, but they're just not as strong as they were, say, a year ago.

HEATHER: Yeah, the Fed was very careful with the way that they worded, that they're not expecting a recession, but they didn't say, you know, when exactly that that time limit might be up, right? Also last week, Fed Chair Jay Powell said that the Fed's nowhere near declaring victory over inflation, and he cautioned that even despite this news that we're not going to have a recession right now, there may still be more interest rate hikes on the way. So, you know, a lot of investors have been hoping that this was going to be the last time for a long time. Where do you think the Fed goes from here as we look ahead now to their September meeting?

NAVEEN: I trust what the Chairman is saying. So, what they've been doing all along is looking to bring down inflation here in the US by raising interest rates, and how they're measuring success is what's actually happening to inflation. And there, we've all seen it—the news has been pretty good. As you said, Heather, even last week, we saw measures of inflation coming down to some of the lowest levels we've seen in over a year so that's very encouraging. And thinking about some measures—they went from like 9%, the inflation, the CPI inflation went from 9% down to 4% more recently, so tremendous progress so far. But we're not quite there reaching the Fed's target, the long-term inflation rate. And my feeling is, it might be slower from here. So, going from 9% to 4% took about a year. It might take a while to go from 4% down towards 3% or 2.5%. So, see how that progresses.

Now, what the Chairman is alluding to is, I think he prefers to stop raising interest rates, right? They've gone up a lot, let's see how this plays out in the economy. It often takes time for this to affect the economy. And if inflation continues to come down, he might be done. However, if inflation stays persistent or even starts to creep higher later this year, which is possible, then the door is open to more interest rate hikes in the future. So, again, I feel like the first question, I'm cautiously optimistic, but I'm going to wait to see how things develop and follow the real time data on this.

HEATHER: Okay, all right, so still plenty of uncertainty out there. It remains to be seen what might happen. But all in all, both the economy and the stock market have been surprising us to the up side this year so far. That's safe to say, I think. And that's been a potential help for anybody who right now is nearing retirement or who thought that they might have to delay retirement plans because of last year's bear market or because of the possibility of recession creeping up on us. And that brings us to today's topic of retiring early.

So, here at Fidelity, we think it's helpful to visualize your best retirement and think about what that might look like for you. So, I asked Naveen and Ryan to share their dreams with us and have a little bit of fun here. So, here are three photos right here on your screen. For everybody out there watching, I would love for you to take a look at these photos and guess what these photos are of, first of all, which cities they are. And then, write in the comments section—again, whether you're watching on our website or LinkedIn Live, you can comment—and let us know which one you think belongs to which one of us panelists, which is Naveen's ideal retirement, Ryan's, and mine. Then stay tuned at the end of the show because we're going to give you the answers at the end of the show. And again, while you're down there posting under the comments section, again feel free to post your questions for our panelists for future episodes as well.

So, I would take any one of those retirements. They all look like dream retirements. But what we wanted to talk about today is early retirement specifically. You know, more years to take hold of those dreams while you're, hopefully, in good health. So, first of all, I wanted to ask Ryan, bringing you in now, is early retirement really possible, even with inflation right now and even if you don't win the lottery?

RYAN: Yeah, I'm asked this every single day and this is the work I do with clients every day to answer a resounding, yes, of course it's possible. And it's actually more and more common these days for clients to even say, "Maybe I want to retire from my demanding 9 to 5, more corporate job, and go do something else that I enjoy." And an example I use is one client of mine has a goal of retiring at 55, again, from his corporate day job, so that he can go work at a bike shop because he loves biking. And so, I tell my clients, whether you're trying to retire early or you're just trying to work on a traditional retirement plan, the key part of that sentence is "plan." That's the part that's really important. And there are definitely some considerations to retiring early, like higher health care costs or the fact that traditional income sources may not be available yet, like Social Security.

So, in that case, you might have a multi-staged plan, as I like to say. So, that might mean early retirement would be building what I call a bridge to when traditional sources like Social Security might start, AKA, the "normal" retirement age, and then, of course, the plan for the longer term. The other thing that's important to know, or at least a note as well, is that when interest rates are high, it can mean your dollar doesn't quite stretch as much because things feel a little bit more expensive, and that's tough when you're on a fixed income. But annuities, bonds, and CDs can provide really attractive income as interest rates rise.

HEATHER: That's really a helpful point there, considering the situation that we're in these days, Ryan, thank you. You know, some people might choose to retire early. Other workers might fear the other side of the coin, though, the potential for being forced into early retirement. And a year ago or even earlier this year, there was more fear in the air about the potential increasing for layoffs, but we haven't really seen that come to fruition, fortunately, so far.

So, this question was a prominent question that a lot of you have asked on previous episodes of Market Sense, when we've asked for you to submit some of your comments and questions. And I wanted to bring Naveen back in quickly and ask you Naveen, what are you seeing right now with the job market and what is the current earnings season telling us about how strong the job market is?

NAVEEN: So far, the news is still pretty good on the job markets. This is a space folks were concerned about, Heather, as you said, right, with interest rates rising, the thought was that companies might make less money. And one area they often cut back on when that happens is jobs. But so far, look at the two visuals we're sharing with you here. On the left is the unemployment rate, which is still below 4% and near its historic lows. The long-term average unemployment in the US is roughly 5.5%. And in a recession, it's north of 6%. So, we're pretty far away from those numbers. This does not feel like a recessionary job environment.

Similarly, on the right side, you see a reflection of job openings. A lot of jobs available, more than one job available for every person looking for work right now. It's off its peak; it's not as high as it was. But still, a lot of resiliency there. And this goes back to what's happening with earnings. So far, we've had corporate earnings coming in this year, and they're showing close to zero growth, maybe slightly negative growth, but it's much better than people were expecting. Some were bracing themselves for maybe 5% or 10% declines in earnings, and that hasn't happened.

So, with companies making money, they feel comfortable hanging onto these workers. And right now, they're actually competing for workers. So, we've seen wages rising at a healthy clip. So, for folks who are looking for work or are wondering, hmm, maybe if I retire, I might want to go back to work at some point? As of now, the environment feels pretty comfortable to try something like that. And the good news about the job market being as strong as it is, it is giving consumers the confidence to spend. And in the US, nearly 70% of our economy, measured by GDP, comes down to consumer spending. So, if consumers are spending their paychecks, that is profit growth, it's a virtuous circle of good earnings, good jobs, and so far, a nice, healthy economy, despite higher interest rates out there.

HEATHER: Good news for jobseekers and employees, Naveen, okay. Let's talk a little bit more, then, about retirement and what you can do now to prepare for retirement, whether it is planned or unplanned. Ryan, I was hoping you could walk us through today five things that anybody can do that could help us retire as early as five years early.

RYAN: Yeah, and in general, again, going back to what I said before, that the most important part of this is planning. The first of the five things that you really have to think about is you have to establish a plan. And retirement planning at its core, the simplest way I can think to describe it, is you take a look at the income sources coming in, the expenses going out, what's the gap, how do you fill the gap?

That's the easiest way that I can think about it. So, step one is, you have to figure out what you're on track for at full retirement age. That's always step one. Step two is you can run different scenarios, where you can have that foundation that you just built in step one, and then you can model different things before you actually even go and do it, like retiring early or maybe taking a new job that might have a little bit less income. So, that's step number two is model different scenarios.

Now, step number three, this is really for the people who really do have the number one goal is retiring early. And if you model it in, like I said in step two, and maybe the plan doesn't quite support stopping income altogether a little bit early, then what you want to think about is maybe spending a little bit less. And I'm hesitant, because first of all, this is unrealistic for a lot of people, but also, no one likes this option.

HEATHER: Nobody likes to hear this, yeah. I'm sure your customers when they say that, they probably grimace, right?

RYAN: No, exactly. But the other thing that I was talking about before, like I used in my client example working at the bike shop, that I think we'd like a little bit more—and this is step four—would be maybe think outside the box and either get some more income now, so it could be a few other, you know, more hours, maybe some overtime, or even like a side, like a gig job, or transition to something that just sort of slows down a little bit as you ease into retirement, or maybe it's doing something you really enjoy related to your hobbies, like I said, for the client who likes the biking. That allows you to take in some income, sometimes maybe even some benefits. And then, of course, it also allows you some time to do what you love and then more time, just like separately from that, when you're not working at all. And that's the fourth one.

So, the fifth one, I would say, is really talking to the clients, you know, our viewers out there who are a little bit younger and they have more time, is maximizing all of the workplace benefits you have, like 401(k)s or HSAs, but then also making sure you're contributing to IRAs and, you know, even investing accounts. But then, once you actually work so hard to put money in those accounts, make sure you're investing with some growth potential, so, hopefully, you can have the markets help your account grow over time to support that goal down the road.

HEATHER: Well, I can tell you talk about this with your clients every day, because you explain this so well, Ryan. Thank you. And by the way, is Jurrien Timmer your client, the bike client?

RYAN: No, but I know he loves biking so much.

HEATHER: It sounds like him, doesn't it? He loves biking. Not on the show today. But that's really helpful, Ryan. I think that those five easy steps really help to, you know, just break down for us, you know, what we have to do. And like you said, planning is at the core of everything. So, really nice, really tangible tips there. I appreciate that.

And I wanted to mention more of Ryan's ideas here, which might get you going, you know, on future retirement dreams on this topic, are on our Viewpoints website right now. We've got a Viewpoint article that Ryan is actually quoted in and featured in. And for those of you who don't know, Viewpoints is our free newsletter that features articles from our experts on all kinds of personal finance topics. And if you stay tuned for just about another minute or two, we're going to have a QR code on the screen at the end of this webcast, which will take you to our Viewpoints page and you can sign up for our free subscription there and read more of Ryan's thoughts. But before we go, I wanted to switch things back to Naveen here and ask you, Naveen, what are you going to be watching this week?

NAVEEN: So, summertime's normally a bit slower, but there are still things to watch for folks like me. So number one will be earnings, so far I mentioned earnings coming in pretty solidly for the quarter. We've seen about half of the S&P 500 companies have reported earnings, and nearly 80% of them, actually a little over 80% of them, have so far beat earnings expectations by an average of 5% or more. So, pretty good results so far and well ahead of expectations that analysts had for this quarter, so that's good news.

A couple other things. One, of course, is the highest interest rate environment. We'll be getting updates on the housing market later—excuse me, the job market later this week. And then, just in general, watching, what does it mean for corporate earnings, right? So, the earnings number is interesting to me, but I also love to read that outlook from the CEOs, the CFOs. How do they see their business panning out? What kinds of pressures are they feeling for their business or maybe lower inflation is helping them. So, I'll be analyzing that kind of stuff as well. And then the last point I'll make is, we all kind of see it, but the housing market peak that happens in this country from spring to summer, we're entering the tail ends of that in August. Most families trying to move in before the school year starts. So, with that, keeping an eye on the job market—or the housing market. I go back and forth on these.

The housing market, right? So, hey, what happens as people apply for less mortgages, people are moving less? What kind of impact does that have on a big part of the economy? So, just some things to keep an eye on as we get more data points over the course of the next week.

HEATHER: Yeah, that sounds like that could have a big impact. All right, great conversation, Ryan and Naveen. I appreciate both of your time. Don't go yet, though, to our audience, one last call to reach out with your questions for us directly under the live stream, whether you're watching us on LinkedIn or our website right now, questions that we will answer in a future Market Sense episode or on our Viewpoints newsletter. You only have another minute to do that, though, because that feature is going to be turned off once the show ends. So, please, take a moment right now, think about what you want to hear about or anything that is even, you know, something just personal to you. Put that down in the comments section and we will do our best to try to use some of those questions on future episodes.

Also, Fidelity has a lot of resources for you, so you can scan the QR code that's on your screen right now that I had told you was going to be coming up, or type in the URL, and that's going to take you to Viewpoints, where you'll find that article that goes even further in depth on this topic and you're going to be able to read more of Ryan's thoughts on five ways to retire five years early. And that will help you sign up for our free weekly Viewpoints subscription that sends our newsletter straight to your inbox.

All right, so this is the moment that we've been waiting for, where we'll reveal the answers to our dream retirement quiz here. So, photo 1 is Positano, Italy. Photo 2 is Wine Country, California, and photo 3 is Hawaii. So, Ryan, why don't you tell our audience which is yours first?

RYAN: Mine is Positano, Italy. It is my happy place. I went when I was about 19, and I will be back.

HEATHER: I love it, on your bucket list, for sure. Which photo is yours, Naveen?

NAVEEN: So Wine Country is mine. I went there for my honeymoon, I've been a few other times, and it's just one of the most beautiful places on the Earth for me. So something I am hoping to spend time in when I am—when I am retired in two years.

HEATHER: Awesome, and mine is Hawaii. The last time I went there was for my honeymoon ten years ago. So, hopefully, I get to go back before like my 50-year wedding anniversary. But we got a couple of comments. Noah, I see your comment there. Also, we got a comment from Dr. Oleg. So, thank you to both of you for taking a stab, taking some guesses at which photo corresponded to which.

As always, if you have questions about making a financial plan or staying on track, don't forget that Fidelity can help. You can call us, you can go online to our website, or you can download Fidelity's app to learn more. I'm Heather Hegedus, I hope you have a great first week of August and we'll see you back here next week at the same time.

[1]Politico 7/26/23 U.S. will avert recession in 2023, Fed staff says, even as more rate hikes loom (msn.com) https://www.msn.com/en- us/money/markets/fed-hikes-rates-again-%E2%80%94-and-leaves-options-open-for- more/ar-AA1eousM

[2]CNBC 7/28/23 PCE inflation June 2023: (cnbc.com) https://www.cnbc.com/2023/07/28/pce-inflation-june-2023-.html

[3]CNBC 7/28/23 Stock market today: Live updates (cnbc.com) https://www.cnbc.com/2023/07/27/stock-market-today-live-updates.html

[4]AP News 7/27/23 US economy grew at a faster 2.4% rate in April-June quarter despite Fed rate hikes | AP News https://apnews.com/article/economy- gdp-inflation-federal-reserve-jobs-consumers- ce011c5f4330bc29d37939730039d1bb

[5]Fidelity 7/26/23 https://wwwxq1.fidelity.com/learning-center/personal- finance/retirement-asset-allocation

[6]AP News 7/27/23 https://apnews.com/article/economy-gdp-inflation- federal-reserve-jobs-consumers-ce011c5f4330bc29d37939730039d1bb

[7]Fidelity 7/25/23 How to retire 5 years early | Fidelity https://wwwxq1.fidelity.com/learning-center/personal

[8]Factset.com July 28, 2023 https://insight.factset.com/sp-500-earnings- season-update-july-28-2023