Fidelity Viewpoints®: Market Sense

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TRANSCRIPT

SPEAKERS:

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HEATHER HEGEDUS: Hey, everybody, thank you so much for taking time out of your busy lives to join us today for another edition of *Market Sense*. I'm Heather Hegedus with Fidelity.

The longest US government shutdown in history is finally over, although we could be facing that scenario once again in just a couple of months. So more to come on that perhaps. Also, later this week, we're expected to finally see some economic data, which will be crucial for the Fed as they decide whether another rate cut is needed when they meet in just a few weeks in December.

We're also expected to get an earnings report from AI giant NVIDIA, which will be vital for the tech sector. That should be coming this week. And we've been seeing, of course, some volatility from the tech sector as of late. So a lot happening as we get ready for the holidays already. And to talk about these headlines and what it could all mean for investors, we are thrilled to be joined, as we often are, by Jurrien Timur. Of course, he is Fidelity's Director of Global Macro.

We're also thrilled today to welcome back Maura Clow, who is a vice president here at Fidelity and a financial consultant, who in a previous life worked as a tax preparer. So anytime we have a tax episode, we lean on Maura and we ask her to come on the show. And we asked her today to talk about some of the changes that came out of the latest tax bill that you might want to consider for your 2025 tax filing, meaning you would need to consider them now before the end of the year. So certainly a timely conversation today, as we often have. And thank you to both of you for making the time.

MAURA CLOW: Thanks for having me.

JURRIEN TIMMER: Great to see you. Good to see you both. I'm excited to learn about taxes today.

HEATHER: Love that attitude, Jurrien. You might want to grab a pencil and a piece of paper because Maura is chock full of good ideas for us today. And today is Tuesday, November 18.

So in the last few weeks, we've seen the market pull back a bit. So I wanted to start that with you, Jurrien. But zoom out a little bit. Big picture. Putting this in perspective, the market's only down 2% from the all-time high it reached just a few weeks ago. So it was, you know, 2% is 2%, but that might have felt jarring, Jurrien, for some investors because for the stretch of the last few months, we keep talking about how the market's been reaching new all-time highs, right? So can you talk for investors there who might be feeling a little bit leery about this, about what's been driving this pullback and where things stand right now?

JURRIEN: Yeah, so it's important to remember, of course, that we've had quite a year. The market was up earlier this year. Then it fell 21% in March and April because of the tariff stuff. And then it's been on a rocket launch ever since, making, like you said, making new highs almost on a daily or weekly basis. And the market's up around 15%, I'm looking at my screen here, about 15% year-to-date, despite a 21% decline. So that's pretty impressive.

And what happens is when the market goes up uninterrupted for a while, and it's done that since April 8, basically, for so for seven months, it doesn't take a lot for people to say, oh, maybe I should take some profits. Right? And so we had the news, or not news, but the market is less convinced that the Fed is going to cut rates in December. And so, I mean, that's not the end of the world by any means. But that's like a little thing that maybe changed the narrative a little bit.

Some of the more speculative corners of the market got a little bit extended. And then people are looking at, OK, it's almost year end. Let me maybe take some profit, harvest some of those gains, if you will. And before you know it, when the market is overextended, not because of fundamentals, but because there's a lot of traders playing different things, it doesn't take a lot for, all of a sudden, the market to start to correct.

But as you point out, the market is barely off of its highs. I mean, last week the S&P was unchanged, even though it felt like there was all this stuff going on, but it was going on in the little corners of the markets that were more volatile and more speculative. So overall, the market can't always go up. It's not healthy. It would be actually bad for that to happen because the market occasionally—you need to occasionally shake the tree and get that low-hanging fruit to drop out in order to reestablish the uptrend. And I think, from my perspective, that's really all we're seeing here.

HEATHER: OK. Well, we are seeing volatility in the tech space. So I did want to ask you about that as well, because we did see really strong quarter three earnings from big tech companies. Right? But there are questions going on behind the scenes, that some of the things that we're hearing are the cost of all of this, the AI build out, who's going to pay for that, the deals going on behind the scenes to try to make this happen. Is that perhaps what's going on here? Or why are tech investors feeling a little bit unsettled right now, Jurrien?

JURRIEN: So remember the Magnificent 7, right? The Mag 7 have been powering this advance forward. So the S&P is up 15%. The Mag 7 are up 20% year-to-date. The average stock is up only 6%, which is still very respectable. I mean, the average price return historically is around 7%. So the stock market, when you strip away these big tech and AI leaders, is doing what the market typically does over the span of a very long history.

But those tech stocks, those AI plays have really done well, and probably for all the right reasons. I mean, the AI story is a very compelling story that could change everything that we know, right? But at the same time, it's a narrative that is, as juicy as it is, it's hard to quantify, right?

And as you point out, there are questions about, OK, all this money is being spent on building out the pipes, if you will, of the AI infrastructure. What is the return on investment of that infrastructure? Will it depreciate faster than companies get a return on that? So these are very good critical questions to ask.

And it's a good thing that this is happening, in my view, because booms can turn to bubbles when no one asks the questions, right? And the fact that the questions are being asked, and that this rally maybe is taking a breather and some of the more speculative corners are being shaken out, I think, is actually a very good thing, because if this thing just keeps going uninterrupted, you could have a scenario like we had in the late '90s, where it gets a little excessive. And so from my perspective, this doesn't bother me. This is actually a very good thing because otherwise, it can build on itself and then get to an extreme that we don't want to see.

But so far, as you point out, the earnings have been very, very good. Third quarter earnings season is now pretty much a wrap, with the exception of NVIDIA and a few others. And earnings have grown 15% year over year in the third quarter, as they did in the second quarter and the first quarter. So this is a very good earnings advance. And a lot of these big tech plays are at prices, are at these kinds of prices because of their earnings and not so much because of valuations.

So overall, I wouldn't worry too much about a few weeks of sideways. It's been quite a ride, and some corrections are inevitable. And in, fact they're healthy.

HEATHER: Yeah, healthy behavior from a market from your perspective. All right. Thank you so much, Jurrien.

Let's turn to Maura now. And Maura, as I mentioned at the top of the show, we love having you on because you have this terrific background to offer us as a former tax preparer. Plus, you're a financial consultant and vice president here at Fidelity. So you're like a unicorn to us.

And today, we want to talk to you about some of the tax changes happening as a result of the latest tax bill, also known as the One Big Beautiful Bill, which was passed earlier this year, as our viewers and listeners know.

Maura, I know you've been watching this closely, and I was hoping you could start by just explaining the latest with tax rates and brackets. What do we need to know this year?

MAURA: Oh, sure. So current tax brackets were set to expire, but the One Big Beautiful Bill did make permanent the tax rates and brackets that took effect in 2018 under the Tax Cuts and Job Act. So had the One Big Beautiful Bill not made these tax rates permanent, we would have seen many tax rates increases, and almost all taxpayers would have seen an increase in their taxes.

We've got a slide on the screen, if you're watching us as a webcast, where you can see the tax brackets for 2025. If you're listening to us as a podcast, you can download the slides at Fidelity.com/MarketSense.

Also worth keeping in mind is that tax brackets are adjusted for inflation each year. So in practical terms, the new bill means all taxpayers will see slightly lower taxes, no matter their income level.

HEATHER: Well, let's talk about the standard deduction, because over the past couple of years, Maura, many people have taken the standard deduction, which increased substantially after the TCJA that you mentioned, the Tax Cuts and Job Act, back in 2017 when President Trump was first in office. Now, there are changes in the SALT deduction. Can you talk about those changes? And I know that this is topical right now because it might make itemizing worth it for some people. Can you talk about who that might encompass?

MAURA: Absolutely. So we do have to go back to 2017, where the Tax Cuts and Job Act was passed to understand why people aren't itemizing. The standard deduction nearly doubled under that act, which you can see on our chart. So a lot of people stopped itemizing and took that standard deduction. But things are changing.

You may have heard of the SALT cap that was part of the 2017 legislation, which is the amount of state and local taxes that a person can deduct from their federal income tax if you itemize. The One Big Beautiful Bill passed this year keeps the SALT tax, but actually raises it from $10,000 to $40,000 for 2025. It will rise by 1% each year thereafter before snapping back in five years.

Important to note, though, if you're a high income earner, you may not qualify for the SALT deductions. But bottom line, with mortgage rates having risen, home prices skyrocketing, the amount of interest that you can actually deduct from your taxes, combined with the $40,000 in state and local taxes through SALT, may make itemizing feasible again.

HEATHER: And any additional itemizing strategies that people might want to consider, Maura, given that they might be considering it due to those SALT changes?

MAURA: Absolutely. And if we're going to itemize, there's quite a few changes that can be impactful this year. The headline here is that there's some limitations for upper income people coming next year, which may mean bunching charitable deductions this year and then skipping over the next few years may be important. So charity is most on our mind. Starting next year, if you itemize and make charitable deductions, you'll only be able to deduct the portion of your qualified contribution that goes above half a percent of your adjusted gross income. If you accelerate your bunching strategy this year, there is no floor. Again, that half a percent floor goes into effect next year.

We've got a slide on the screen for webcast viewers with a hypothetical example. If you're listening as a podcast, I'm going to walk you right through it.

So say we have a couple that's married filing jointly in the 35% tax bracket with a joint income of $750,000. If you look at the column for 2025, if they've itemized deductions totaling $25,000 and decide to front-load or bunch charitable deductions that add up to $20,000, this will put them over the standard deduction threshold, and that will result in a potential savings of about $4,700. But the potential savings you will see will decrease next year when charitable contributions are subject to that half a percent floor.

Now, there is an additional cap for filers in the 37% tax bracket to be aware of. Next year, your charitable deductions will be further capped at 35%, whereas this year there is no cap at this income bracket. So if you're itemizing, it may be beneficial to bunch and make as many charitable gifts now as you can.

One way you can front-load your charitable givings is by using a donor advised fund, which you can do on Fidelity.com. It allows you to make an immediate tax deduction this year and then distribute the gifts to charities over time.

HEATHER: Again, that's called a donor advised fund. And again, you can find out more about that on our website, like you said, Maura. Before the show started, you were telling me this is a busy season of yours. And I know a lot of people are thinking about Roth conversions at the end of the year. So can you talk about whether there are any considerations people should be mindful of when it comes to Roth conversions right now?

MAURA: Absolutely. Yeah, the end of the year is always my busy Roth conversion seasons. A lot of my clients are coming to ask, is this the right move for them?

So the first thing I always need to consider is their income when determining whether or not a Roth conversion is right for them. But this year, there's a big consideration called the senior deduction. For the next three years, people who are 65 or older can get an extra $6,000 tax deduction, even if they don't itemize. It's part of the new law, and of course, it starts to phase out for high income earners. But taking a Roth conversion this year could bump you into a higher tax bracket and cause you to lose that senior deduction. So this is a definite thing to watch out for.

And then that first consideration is since that deduction is only available for the next three years, through 2028, you may want to take advantage of that now, and maybe postpone the Roth conversions when that deduction is no longer available.

The second thing you always want to think about doing when doing a Roth conversion is good old IRMAA. I like to think of IRMAA is a Carol Burnett character, some cranky old aunt you have who's always looking to ruin your day. IRMAA is the Income Related Monthly Adjustment Amount for Medicare. So if your income is above a certain threshold, you may have to pay more for Medicare.

So this is not back of the napkin math you should be doing. You need to meet with your tax advisor and see if it's more beneficial to hold off on the Roth conversions while the senior deduction is available, and if it's worth getting a kick in the Medicare pants from good old Aunt IRMAA.

HEATHER: I love that you have a visualization of Aunt IRMAA, and I think most of our audience is old enough to remember The Carol Burnett Show. I like that, Maura.

It's hard to believe that the end of the year is almost here. We're almost at Thanksgiving, and then it's going to be the holidays, and that's going to be it. So the clock is really ticking right now for strategies that need to be done prior to the end of 2025. And I know everybody's situation is different, Maura, but are there other things that, generally speaking, that we as investors should be thinking about before we reach the end of the year?

MAURA: Absolutely. And the easiest low-hanging fruit is to look at your pay stub. Check and see if you've maxed out your contributions to your 401(k) or your 403(b)s. Also, if you have a health savings account, make sure you've maximized the contribution to that.

And then, of course, my favorite topic, tax loss harvesting. That can be a really helpful way to help reduce capital gains before the end of the year. Tax loss harvesting involves selling stocks that may be at a loss and no longer fit in your portfolio. And that will offset gains. If you want to learn more about that, I was on the show in July talking about it, and you can find that episode on Fidelity's YouTube page.

HEATHER: Yep, it's easy to find Fidelity's YouTube handle, and it's still up there. And that was one of our higher performing shows of the year, Maura. Great job with that.

Let's talk about next year, too, and looking ahead to next tax year. Are there tax changes that we can look forward to when you're thinking about your taxes for April 2026 that we might want to keep in mind next year as the year progresses?

MAURA: Sure. There's not a lot of things we look forward to with taxes, right? But there are two things. There are two things that I'm excited about. The first one is the expansion of the use of the 529 accounts. It's now going to be able to cover more traditional expenses—books, online educational materials, fees for standardized tests, college admissions exams. So what that means is when you withdraw money from your 529 plan to pay for these qualified expenses, the money is not taxed.

Also, educational therapy, like speech, OT, PT, ABA, can be paid with 529 money. Heather, you and I are special needs parents. This is going to be really important.

Also, apprenticeship programs and trade schools are qualifying. And additionally, if you're—excuse me—your child goes to a tuition-based K through 12 school, up to $20,000 of qualified expenses can be paid through your 529. I certainly could have used this when my five kids were in school.

The second thing I'm most excited about is the Trump account for minors. This promises that every American baby born between 2025 and 2029 will have $1,000 put into an IRA-like account, and any child under the age of 18 has the ability to have one open by an adult and have up to $5,000 deposited annually. Any adult can make that contribution, even a grandparent. And then once the child turns 18, the funds will be rolled into a traditional IRA, with withdrawals and subject to the similar standard traditional IRA rules. It's a great way to get someone you love started for retirement before they even have a job.

But wait for 2026, and I'm sure we're going to have shows that dive deeper into those topics.

HEATHER: We certainly will, Maura. Nice tee up for 2026. And it's not often that you hear look forward to and taxes in the same sentence. But you've piqued our interest there, Maura. So we would love to have you back as our official tax correspondent next year to talk about some of those things to look forward to.

We do have a few more minutes before the end of the show, and we always like to wrap things with Timmer's Take to hear Jurrien's take on what investors might want to be paying attention to in the week ahead. So, Jurrien, what are you watching right now?

JURRIEN: Well, obviously the NVIDIA earnings will be very important. I mean, I don't cover individual stock, but that is a $5 trillion company that is very much at the forefront of the AI boom. So it'll be very interesting to see what happens there.

Beyond that, as I mentioned earlier, earnings season is pretty much wrapping up, and the numbers were really, really good. The Fed is meeting in December. Right now, the odds of another cut are about 50-50. So we don't really much there, but I don't really particularly think that the market is holding on with bated breath for another quarter point rate cut or not. But it is interesting just to see look what the Fed will look at once the economic data start to flow again. So they'll have some jobs data by the time they meet in December. Not all of it.

And so these are some of the crosscurrents that we're looking at. But again, I'll point out, I'll reiterate what I said earlier, is that this has been certainly an interesting year, an eventful year. The market is up very nicely, and we should give thanks for that as we go into Thanksgiving week next week. But it has come with a few bumps, including that 21% decline. And even if you go back to when the bull market started in 2022, if you think about it, the market has doubled in three years. I mean, that is quite a run.

But it didn't come without a few shakeouts here and there. And so especially after we've had a seven-month straight up move now in the markets, I think it's important for folks to remember that the market does go down from time to time, and actually, it goes down 30% to 40% of the time. And so as we go into the end of the year, maybe people will take profits. And again, I don't think that's the worst thing in the world, because markets need that correction from time to time to refresh themselves, if you will.

HEATHER: Refresh, reset, and giving thanks at the Thanksgiving dinner table for an overall very successful year as investors. And we've got to leave it at that. But a big thank you to everybody out there for watching and listening and sending your questions today.

We do like to leave you with a resource to help you do more research on the topic that we've covered in a show, and our Fidelity Viewpoints team has articles to read on pretty much everything related to taxes that you can think about. Every angle they've got covered. So just head over to Fidelity.com/ManagingTaxes for more tax-related resources from our partners there at Viewpoints, which also, by the way, put out a newsletter that you can sign up to get on your email for free.

I want to thank Jurrien and Maura for a terrific, timely discussion today. I'm Heather Hegedus. Thanks so much for your time. We hope to see you back here Tuesdays at 2 Eastern. We'll be off next week for Thanksgiving. But we'll be back the week after that with a one-on-one with Jurrien that I'm really fired up for to talk about what made 2025 so different and so unique, and perhaps a very healthy year for all of us and for investors. Thanks so much.

[1]Fidelity Viewpoints, October 31, 2025: https://www.fidelity.com/learning-center/personal-finance/yearend-tax-planning

[2]Fidelity Charitable: www.fidelitycharitable.org/guidance/charitable-tax-strategies/bunching-charitable-donations.html

[3]Fidelity Viewpoints, July 16, 2025: www.fidelity.com/learning-center/wealth-management-insights/new-tax-bill-considerations

[4]U.S. News & World Report: https://health.usnews.com/medicare/articles/what-is-medicare-irmaa

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