

# *Fidelity Viewpoints*<sup>®</sup>: Market Sense

Week 175 October 7, 2025

## TRANSCRIPT

### SPEAKERS:

Heather Hegedus Jurrien Timmer Naveen Malwal

---

**HEATHER HEGEDUS:** Hi there, everybody. Thanks for making the time to join us for another episode of *Market Sense* today. I'm Heather Hegedus with Fidelity. Lots to talk about today. The global stock rally continues. The S&P closed out its seventh winning week in the last nine weeks and has been continuing to make all-time highs. This is pretty remarkable, and I think this next statement I'm about to make is channeling my friend, Jurrien. You could say this bull market is stomping. It sounds like something Jurrien would say to me.

And this is, of course, despite the fact that the government is still shut down and jobs data was delayed last week. So we're going to be talking about those developments and what it could mean for investors with Jurrien, of course. I'm talking about Jurrien Timmer. He is Fidelity's Director of Global Macro, joining us today here in the Boston area.

Plus, it's hard to believe that we are in the back half of the year already. I don't where the time is going, but we are wrapping up quarter 3, looking ahead at quarter 4 today. So to give us his team's quarterly report, we are joined today by Naveen Malwal, who's a CFA charterholder and an institutional portfolio manager here at Fidelity. His team manages millions of clients' accounts here at Fidelity Investments. So thank you both for joining us today. I always look forward to these quarterly updates, Naveen.

**NAVEEN MALWAL:** Me too. It's good to be back.

**JURRIEN TIMMER:** Yeah. Welcome back, Naveen.

**HEATHER:** And today is Tuesday, October 7. And gentlemen, the government has been shut down for a week, and so far the political gridlock has not affected the markets. This is pretty remarkable. As we mentioned off the top, the S&P has been on a winning streak every day of the

shutdown. So it is not impacting the markets. And negotiations in Washington still don't seem to be making much progress meantime. We don't seem to be any closer to the end of this than we were almost a week ago.

So Jurrien, I'll start with you today. You said last week these types of events historically don't impact the markets. But the longer this goes on for, do you think that could change at some point? Could there eventually be a market impact if this really drags on?

**JURRIEN:** Of course, the answer is yes. But the playbook, historically, which the market, of course, is always learning from, is that these things happen just these debt ceiling cliffs that we have from time to time, including just last year. They happen. It tends to be very political. There tends to be some theatrics around it. But unless it affects the things that the market cares most about, which is long-term earnings, economic growth, interest rates, monetary policy, the market will tend to look past these things, and that's what it's doing now.

That doesn't mean that if it really drags on and it starts to affect how and whether the government can operate that it won't affect it. But at this point, a week in, so far, there's nothing really that the market is concerned about. And of course, we have the issues of—well, actually, let me start—so first of all, there's a distinction between these government shutdowns and these fiscal cliffs, as we call them, when the debt ceiling is reached and the government can't issue new debt. When the debt ceiling is reached, you have the risk that if the government needs to make an interest payment, for instance, on T-bills or Treasury notes and it can't do it, the government goes into technical default. And that, of course, is a big deal.

For the government shutdown, which is what we're having now, that's not an issue because interest payments on the debt and national security and things like that are exempted from the shutdown. So the most important thing, at least over the near term, that affects the market is the fact that the Bureau of Labor Statistics, for instance, is shut down. And so we don't get a lot of economic statistics. We didn't get the jobs report last Friday.

But that is about the limit to what the effects are right now. And again, if it drags on, maybe that will change. But at this point, the market is focused on bigger things—earnings, interest rates. And of course, we have this whole AI story going on, and that is driving the train here.

**HEATHER:** The fundamentals in AI is what the markets focus on. All right, let's switch gears now from the markets to the economy and the trends we saw in quarter 3 to help inform investors of what we might be able to expect in quarter 4. Naveen, we could start with stock performance. Maybe that is a good place to start here.

So quarter 3 has been the strongest quarter of the year so far. As I mentioned, the S&P continues to reach new records. It's happened all quarter. So right now, the S&P, a benchmark index, of course, is up 13% year to date. What is driving this?

**NAVEEN:** Yes. It's been a good year for the markets. I think many investors might be surprised, considering the amount of news headlines we've seen on a range of issues, whether it's about the markets or the economy or political events that have been taking place here in the US and all around the world.

Through all of that, we've seen very good earnings growth and pretty solid economic growth, too. We had a bit of a wobble in the first quarter for economic growth, but the second quarter GDP number was very strong. And so far the third quarter numbers look pretty promising too. We'll get that report out probably in the coming—hopefully in the coming weeks and months and get a better gauge of that.

But you can see some of the numbers we're showing on the screen. And for those of you who can't see them, I'll read out what we have here. So we're showing you both how stocks and bonds have done so far this year. Across the board, we're looking at very strong performance. So just as an example, we're showing you all of these through the end of September, so to the end of the most recent quarter. And on this chart, we're showing an S&P return of about 14-15% for the year.

Just for some context, since 1980, the S&P's averaged about 13% or 14% a year. So in just nine months, we've come close to or exceeded that already for the S&P 500. Small cap stocks have done well, too, not as much as S&P, but still up 10%. And then story of the year, perhaps, in stocks has been international markets, which have been very mediocre in the last couple of years. But both developed markets like Europe and Canada, Australia, US Group in Japan, up over 25%. And emerging markets, as well, largely in Asia, Latin America, seeing strong gains.

Beyond the stock market, the bond market is also coming through for investors. So with yields at very nice levels compared to where they were even just a few years ago, bond investors have enjoyed a nice year. So, so far, investment-grade bonds, for example, up about 6%. Very strong year for the bond market. Short-term bonds up about 4%.

And then if you look beyond just those two categories, municipal bonds are up about 2% and global bonds up about almost 8% for the year. So overall, it seems like the most significant asset classes most investors are typically drawn to have had a very strong year to start. And again, this goes back, in my mind, to a solid economic backdrop, a good earnings backdrop, relatively benign interest rate environment with the Fed cutting most recently. Pretty good setup for investors in hindsight for the year so far.

**HEATHER:** Absolutely a great setup for investors. Look at all the up arrows on that chart indicating so many things up. As you said, S&P above benchmark, internationals, emerging markets. So the market keeps reaching these all-time highs, Naveen. But is there a chance that some things may be overvalued? That's a question that I know we get a lot from our *Market Sense* viewers and listeners. So I was hoping you could maybe provide some perspective on the current market valuations and if they do feel overvalued to you.

**NAVEEN:** Yeah, I'm seeing more of those headlines coming out. With the market doing so well this year, folks start to wonder, is this all-time high level sustainable or is it due for a pullback? And part of it is the valuation story. So a lot of investors look at measures like price to earnings or price to sales or price to book to get a sense of whether or not the market is cheaper or more expensive than history. And right now, the S&P 500 is more expensive than its historical average.

Yet that doesn't necessarily mean the market is due for an immediate correction or even poor performance. Historically, what we've seen is a higher than average price to earnings ratio has normally led to more modest but positive returns for the stock market. But even those more modest returns have generally done better than bonds or short-term investments.

It is true that low PEs can lead to extraordinary performance, but a high PE, just to recap, doesn't necessarily mean the market is going to experience some sort of decline or drop. So to me, valuations aren't that helpful in terms of deciding whether or not to be in a market day to day. What I'm focusing much more in terms of managing risk when it comes to a diversified portfolio is thinking about things like the earnings outlook, valuations, some of the fundamentals of the economy, like the job market, consumer spending. Those are a better measure of what the environment is like. And that can help me manage the risk between stocks and bonds and other investments. Valuations, by themselves, I find, are just not that helpful in making those kinds of timely adjustments.

**HEATHER:** Hey, Jurrien, I wanted to bring you in because many are wondering if we're due for a correction, kind of along the lines of what Naveen was talking about. Do you think we are? And the reason I'm asking you is because I know you've written about a melt-up. So can you explain what that is and whether that's happening right now?

**JURRIEN:** Of course. Well, so corrections, of course, can happen at any time almost for any reason. And those declines can be short lived or they can last longer. But anyway—but they do happen, and they're relatively hard to predict.

In terms of a melt-up, that would be the opposite, probably, of that scenario. And a melt-up just means that the market really accelerates higher. And you could argue we're kind of been in one since that tariff tantrum back in April. The market has recovered very, very fast and started making new highs very, very quickly.

And of course, this whole AI story that is obviously very, very real is part of those animal spirits, which is another way I've been describing this kind of scenario. And so there's a lot of momentum, and things like the AI boom and, back a few decades ago, the internet boom, there are phases of that are hard to quantify. You can't really say, OK, these are the earnings. This is the price. Therefore, this is the PE. There's a lot of pie in the sky elements of that. Which is not to say that the AI boom isn't for real.

But when you get into that kind of phase, it can feel like sometimes the market's moving faster than it makes sense. And we're certainly in a mode where the momentum is strong. It's driven by accelerating earnings estimates. And now the Fed has cut rates and is expected to do so a few more times. So you have friendlier monetary policy.

As Naveen said, the bond market has done well. The 10-year Treasury yield is pretty low at about 4.2%. So there's a lot going right in the market, and that eventually gets reflected in a more ebullient sentiment. And that's where the melt-up story comes from.

**HEATHER:** All right. Thanks for explaining that, Jurrien. Let's switch gears right now to the economy. I'm packing it in today because we've got a lot to talk about. And I wanted to talk about consumer spending because we know this is a major driver of economic growth. So you would think a softer job market and higher costs on food and electric bills might cause people to cut back on spending, right? But consumer spending is actually up. What does that mean for the economy, Naveen?

**NAVEEN:** So, generally, consumer spending is a powerful driver of economic growth here in the US. Every country's makeup is a little bit different. We in the US, 70% of our GDP growth every year is attributed to consumer spending, which is very high compared to many other countries. So in other words, the day to day activities we do, spending we do, whether it's shopping for small items or big, that adds up to a lot of economic activity.

And to your point, Heather, the measures on consumer spending have been healthy throughout the year. Despite people's worries about political situations or the job market or even the stock market overall, they continue to spend their money.

Now, having said that, sometimes I get people asking me, gee, Naveen, I don't really see that in my life. My friends aren't really spending more money. Where is that coming from? So most of the metrics you look at are national. And what that might mean is maybe you and your circle or even your community or your state could be having a certain situation where maybe spending doesn't feel as exciting or as comfortable. But perhaps another part of the country or other parts of the country people are feeling more ebullient, to use Jurrien's word, and they are willing to spend more of their savings or their paychecks over time.

So as a group, what we get is a national average number, and those are the metrics that tend to look at. But that's why sometimes we'll say things like, hey, spending is good, and many or perhaps some of our viewers may not necessarily feel that in their own lives day to day.

**HEATHER:** Right, absolutely, especially when you're going to the grocery store, if you have a big family. And while consumer spending is up, Naveen, we've actually seen a drop in consumer confidence. So I was wondering if you could explain this, too, because these two pieces of data might seem to be contradictory to one another, right? So can you explain this disconnect?

**NAVEEN:** Yeah. This is something I get asked about quite a bit in my meetings with clients, and they'll say, I don't feel good about the economy. My family doesn't feel good. My friends don't feel good. And you can see it in the survey. So the University of Michigan, the Conference Board, those are two very common surveys people look at to get a sense of how consumers are feeling about things, and they are somewhat downbeat about things like rising prices, as you said, Heather, or the outlook for jobs may be not as good as it was a few months ago.

Yet what we've seen over time is people tend to spend their money relatively consistently, even if their mood gets better or worse over time. What tends to matter more for spending is an actual change in the job market. So we have seen job growth has slowed considerably so far this year in the US. The pace of job growth is not what it was a year or two ago. But we're not seeing a pickup in layoffs, and the unemployment rate is still relatively low. So as long as people are able to get work and get their paychecks, they typically continue to spend at their typical levels, even if they don't feel necessarily as excited about the economy.

So that helps explain the difference between consumer sentiment and behavior, and it also goes back to the market. People ask me, I don't feel good about the economy. How's the market up? It's really similar. Just because we're feeling down about our own situation, it doesn't mean that other investors may not be excited about something happening in the market that might be different from what we experience day to day.

**HEATHER:** Yeah, but it does feel like a little bit of a disconnect sometimes, Naveen. Thanks for explaining that. All right, good recap, Naveen, on quarter 3. Let's look ahead to quarter 4 a little bit more now. So several *Market Sense* viewers who wrote in questions during registration to watch the show on Fidelity.com—and thanks for those questions—like Paul and Janet, who submitted questions—thank you to you guys—asked about the trends that investors might want to keep an eye on as we round out the year. So, Jurrien, I figured I'd field that one to you. What are some of the trends that you're keeping an eye on these days?

**JURRIEN:** So we are in a market cycle. The bull market that started in October of 2022 is now just about three years old. And so, of course, the question is, will it continue? For how long? And that will come down to earnings, which are in pretty good shape, and we're going to have earnings season starting next week. Of course, the jobs market—Naveen just talked about it. But the numbers have been softer than some people were looking for in recent months. So is the economy losing steam? That is another question.

The role of the Fed—will it cut rates more? Will it lead to? Inflation. So those are all cyclical measures that I think will help define the trend. But at this point, the economy seems to be in OK shape. Inflation, at least the rate of inflation, has continued to be at moderate levels at around 2.7%, 2.8% above the Fed's target, but certainly not at the levels we saw a few years ago.

And so the economic cycle seems to be OK. The earnings cycle seems to be OK. The Fed is now moderating interest rates, and bond yields are low. So in that sense, maybe it's more of the same in terms of the cycle. And then when we look beyond the cycle, we go to the bigger trends, obviously, this whole AI boom is one of the major drivers for capital spending and therefore for earnings, for margins.

And that is another big train that is lifting things up, driving the so-called Magnificent Seven stocks, those really big tech stocks, and those stocks in turn lift the market up because they're very, very big. Those seven stocks are 35% of the market. And if they go up, the S&P 500 goes up. And that's the main index that a lot of us look at. So those are some of the bigger issues out there that so far, obviously, are moving in the right direction for most investors.

**HEATHER:** All right. And given what Jurrien just said, Naveen, about the trends he's watching, given the economic backdrop that we talked about earlier in the show, where is your team looking for opportunities as we round out the year now?

**NAVEEN:** Yeah, so we work closely with Jurrien and other experts at Fidelity, and we largely feel the same way. Things are pretty positive for the economy, even though there are some things that are worth watching, like the job market right now.

Given that, there's a few things I'm looking at for opportunities for investors. So if you're really excited about the market and technology, that's a pretty obvious space to play in, and you can continue doing that. But for investors who are looking to maybe manage their risk or diversify to other opportunities, I would suggest looking beyond just tech stocks. So it is true that all the headlines seem to be focused on technology, communications companies, but companies in the utility space, industrial space have also done well this year.

And then value stocks, maybe they haven't kept up with growth stocks, but they're not that far behind. So investors can still find opportunities beyond just large growth stocks to help diversify their portfolios just in case there is a wobble in the technology market, which can happen for all kinds of reasons.

I'd also point to small cap stocks. I mentioned earlier, they are up this year, but not nearly as much as the larger parts of the market. But the fundamentals there are improving. So much of the backdrop Jurrien and I just talked about with the economy and earnings, that is starting to become more of a theme for small caps as well. So if we start to see the market, as we call it, broaden out so that more companies benefit from this kind of environment, small caps could stage a rally. They are more cheap than small company stocks, another area worth investigating.

And then lastly, in the stock end of things, I'd point to international stocks. Yes, they've had a phenomenal year so far. But looking at valuations, they're still relatively cheaper than US stocks, which is true historically. But they're even cheaper than their historical averages right now. And

that gap between US and international is still pretty wide. And their earnings story is still pretty good. So that's a theme that could continue to work through the back half of the year.

Now, beyond that, for the investors who are looking to balance maybe risk and return or trying to preserve more of their capital, one possibility is you may get some inflation as the year progresses, with some more tariffs coming online, as more collections resume on tariffs. And on that end, I've given you some ideas here that might work for some investors.

So historically, looking at investments like commodities, TIPS, which are bonds, Treasury Inflation Protected Securities, or even real estate investments, those historically have provided some protection from inflation. So those might be parts of a portfolio to consider adding to provide more diversification from inflation risk.

But I'll remind viewers, stocks are also a really good way of managing through inflation. Stock markets do just fine. It's more the bond portfolio that maybe gives you less than stellar returns. It can still do OK. But in the bond end of things, where it might help to diversify to these other items to help broaden out the portfolio against different kinds of risks that are out there for investors.

**HEATHER:** Fantastic, Naveen. Thank you so much. And just a reminder to anybody watching us live, you can catch the replay if you want to see that fantastic slide that Naveen had there, laying out his opportunities once again on Fidelity.com. And on YouTube, you can watch the replay. But it's time to wrap. So, Jurrien, let's end with you, as always. Any final thoughts? We'll do a quick Timmer's Take. What are you watching this week?

**JURRIEN:** Well, obviously, we're watching the shutdowns and to see if there's any opportunity for the ice to melt between the two political parties. But beyond that, earnings season starts next week. And the last two quarters were very, very positive in terms of the number of companies beating estimates.

And whether they do that to the same degree starting next week will give us a good insight as to how long lasting this earnings acceleration phase can last and with that, of course, how far the bull market can extend.

**HEATHER:** All right. We shall see. And we've got to leave it at that. Just a big thank you before we go to everybody out there watching and listening, as a podcast, perhaps, or as a webcast. We want to remind you that we also really appreciate your questions. We incorporated them into—some of them into today's show. And we do use your questions every week when we're building out the topics for our shows.

So if you have time, we would love it if you would take our quick survey by heading to [Fidelity.com/MarketSenseFeedback](https://Fidelity.com/MarketSenseFeedback), where you can let us what you think about *Market Sense* and if you have any ideas on future shows for us or any potential opportunities that we might want to look into in the future.

On behalf of Jurrien Timmer and Naveen Malwal, thanks so much for your time today. We'll be back here next week. Remember, we are on every Tuesday at 2:00 live. And that's Eastern time zone. Take care, everybody.

<sup>1</sup>AP News: <https://apnews.com/article/financial-markets-box-bc44e83b77266fd0f8b609b9c0fbc2cf>

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.

Fixed income investments entail interest rate risk (as interest rates rise bond prices usually fall), the risk of issuer or counterparty default, issuer credit risk and inflation risk. Foreign securities are subject to interest rate, currency exchange rate, economic, and political risks all of which are magnified in emerging markets.

The securities of smaller, less well known companies can be more volatile than those of larger companies.

The commodities industry can be significantly affected by commodity prices, world events, import controls, worldwide competition, government regulations, and economic conditions.

Changes in real estate values or economic conditions can have a positive or negative effect on issuers in the real estate industry.

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.

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 the date indicated, 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.

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.

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

This podcast is provided for your personal noncommercial use and is the copyrighted work of FMR LLC. You may not reproduce this podcast, in whole or in part, in any form without the permission of FMR LLC.

**Past performance is no guarantee of future results.**

This information is intended to be educational and is not tailored to the investment needs of any specific investor.

**Advisory services provided for a fee through Strategic Advisers LLC (Strategic Advisers), a registered investment adviser and a Fidelity Investments company.** 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. Strategic Advisers, FBS, and NFS are Fidelity Investments companies.

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

© 2025 FMR LLC. All rights reserved.

1227394.2.0