# *Fidelity Viewpoints®*: Market Sense

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**TRANSCRIPT**

**SPEAKERS:**

Jim Armstrong    Naveen Malwal    Randelle Lenoir

**Jim Armstrong:** Hey there, thanks for joining us for Market Sense. I'm Jim Armstrong with Fidelity. Last week the Federal Reserve hiked interest rates by a quarter point as expected. So we're wondering, could the era of big rate increases finally be ending? February is also Black History Month, a great time to reflect and honor the many contributions of people in that community throughout history. So today we're going to devoting a portion of our show to discuss some key financial topics that might be top of mind for people in the Black community and beyond. To help give us the market's big picture today we are thrilled to be speaking with Naveen Malwal, Fidelity's Institutional Portfolio Manager. And to get some financial insight about the unique financial needs of people of color we're going to talk to Randelle Lenoir, Vice President and Branch Leader at Fidelity. Thank you both for taking time out of your schedules to be with us today.

**Randelle Lenoir:** It's so great to be here, Jim, good to be here.

**Naveen Malwal:** Same here. Good to be here.

**JIM:** It is Tuesday, the 7th of February. And Naveen, as I mentioned let's maybe start with you for a kind of high-level look at what's happening in the markets and the economy. Last week's interest rate increase from the Federal Reserve, as I mentioned, was smaller compared with several of its predecessors more recently. We have seen inflation slowing down a bit. The stock market kind of making up some of the ground it lost last year. Is it too optimistic to say that the Fed has achieved the so-called soft landing that it was seeking?

**NAVEEN:** Yeah, the soft landing, Jim, right? The dream scenario where inflation comes down, but there's no recession here in the US.

**JIM:** Right.

**NAVEEN:** We feel it's too soon to say that it's a mission accomplished, but I will agree with you that things are starting to feel better out there. So to your point the Fed has raised interest rates by a smaller amount. They're talking about maybe having to raise it a little bit more, but it sounds like they're nearing the end of the rate hike plans. And on top of that, think about the U.S. economy, inflation is ticking lower, and unemployment is still really low so a strong job market, despite some news headlines around layoffs. And we've seen stocks stage a rally over the last few months here in the US.

But this is also a global phenomenon. Inflation is coming down around the world, and that will help the bond markets in the US and globally. And in the international space, Europe is looking at maybe a bleak winter with high energy prices causing maybe an economic slowdown and recession. Instead, winter has been mild, and they've been able to get by just fine without having a crisis develop there. So that's helped those stocks gain in value. In fact, outpacing the US stocks since September of last year. And even over in had China they have now opened up their economy after COVID-19. And, you know that matters because it's the second biggest economy in the world. So when they reopen, and people get out there and start spending money again, and that's good news not just for their economy but also their trading partners in emerging markets, Europe, and here in the US.

**JIM:** What can you say about the chart that's on screen right now? Help us understand what to take from that, if you could.

**NAVEEN:** So this is a wonderful take away of just how strong things have been over the last few months. You can see in the middle, international stocks having a stupendous run, but this is just are all from September 30th. Looking at these numbers, if I saw these numbers for stocks and bonds for a full year, that would be an exceptional year for investors. What's also striking about this to me is a lot of news headlines back out there weren't all that positive and weren't that constructive. So this is good evidence of that fact that markets can surprise us by rallying when we least expect them to.

**JIM:** Let me push the boundaries of optimism, if I can, Naveen. What would you say to those who say, well, it looks like the worst is behind us, we're good to go?

**NAVEEN:** Oh, Jim, I would love for that to be true. I think we'll just have to wait and see. We have a research team here at Fidelity, the Asset Allocation Research Team, and they closely follow the US economy and other major economies around the world. Their latest point of view is while things are still feeling pretty good, we have a slow expansion here in the US. It is likely the US might experience what they think will be a mild recession in this year. Now, it could be worse than that, but they feel there's a chance it might be mild because of things like a strong job market. So we may not see as many layoffs as we typically do in a recession.

On top of that, most households and businesses, even state governments have more money set aside than they did before the pandemic, so that can help the economy weather any kind of storm. But, most importantly for investors, sometimes people will ask me, hey, should I get out of the market or get out of the way before a recession? We'll have to see. Recessions come in different sizes. Sometimes the volatility in the markets has not been that drastic, but most importantly, following a recession, the stock market historically has delivered exceptionally strong performance. Now go back to 2020, just as one example of this, the recession starts in February of that year because the pandemic, and the recession ended in April. The markets actually bottomed in March of that year. From March 23rd of 2020 through the end of that year, the S&P 500 gained nearly 70%, 7-0 percent, in returns. So that's the kind of rally investors risk missing out on by getting over caught up in the near-term noise and headlines out there.

**JIM:** Thank you for the reminder there, I think a lot of us certainly remember the whiplash, for lack of a better word, of that quick turnaround there. So thanks for reminding us, but that's certainly a possibility. Hey, Randelle, I would love to bring you into the conversation now as we're speaking specifically in recognition of Black History Month this month. We would love to dive into some of the biggest financial issues that people in the Black community are facing. And I think a good way to start maybe, is for you to share some of the top questions that you and your team have heard over the years from traditionally underserved communities, right, when it comes to planning or saving or investing? What's top of mind?

**RANDELLE:** Yeah, this is such an important topic, and I'm glad to have the opportunity to talk about it. So the Black community has tremendous spending power here in the United States. The spending power being $1.7 trillion; $1.7 trillion in annual spending, right?[1] But we all know, there's a well-known wealth gap with the Black community. Black people earn less than $1 compared to their White counterparts, and then there are these structural problems that exist and make it difficult and present obstacles for people in the Black community to generate wealth, although that spending power is so tremendous. And some of these structural problems come up in had some of our biggest ways to generate wealth, which is, for example, buying a home, right? How do I approach buying a home? What resources do I have to do it?

Surveys, especially with young Black people are talking about the access to financial role models. Who can I model my life after? Who can I ask for advice and practice wealth management? That's where I'm trying to go to. That's why I love the format that we're engaging on today and different other digital formats that give us access, but there's a desire for more. There's also a desire for education on savings, education, on handling debt, and education on investing. And Black women in particular have some unique needs. Black women, more than ever, are making the key financial decisions in the household, heads of households, even a head of household of one, like myself. All of these are high stakes decisions. When you think about Black women overall in the United States, something cool that my Black girls out there are doing is, I think – what the detail? 1.5 million businesses in the United States, generating $42 billion in annual sales.[1] There's so much possibility and so much potential out there to generate wealth for Black women. The truth is, Black women tend to have more student debt. So like how do you handle balancing wealth creation and managing your debt? And then you also have the structural problem that Black women tend to make more than even other women in other groups, as well.

**JIM:** Lots more to dig into there for sure. I think before I ask you the next question, just point out that, of course, while we're focusing on the Black community today, a lot of what we're talking about we think expands to all communities, specifically when it comes to where we've put our money. It's a question when you are thinking about budgeting and planning that is broadly applicable, so what can you tell us about that?

**RANDELLE:** So this is one of my favorite things to talk about with everybody, to your point, because when you think about your financial life, there are so many different elements and so many different priorities to balance. Like, you have to make sure that you're handling your essential spending and saving, and saving for retirement and making sure that you're handling debt, and how do you do all of that at the same time? How do you prioritize what you do first? So we suggest this model that's on the screen – 50, 15, and 5. And I'll break down really quick what these different models mean.

Before I get to it, I'll say this is aspirational for some people, but it's a great model to think about when you are trying to build wealth and when you are trying to build legacy, which are huge topics when I talk to our Black clients. So 50%, essential expenses. We recommend are that no more than 50% of your take home pay goes to essential expenses, like a mortgage or rent, like handling food, utilities, groceries, monthly debt payments, like a car payment. It's good to target no more than 50% of your take home income here. Then when you think about the next step, it's about retirement. 15% of your retirement – and this is your pretax income. This includes also whatever your employer matches if you are lucky enough to work someplace where your employer matches. So the 15% includes all of that and you should aim for 15% in your retirement savings, for the retired future you.

56% of Black people are not yet taking advantage of their workplace plans in this way.[2] I just mention a lot of the structural things that happen that prevent that from occurring. But even if you can start with 1%, you know the goal is to get to 15% because this is a huge opportunity. And I'll also mention that this is a huge opportunity to consider first when you are thinking about generating a legacy of wealth. There's nothing better you can do for your family than to make sure that you can retire securely and that they have the space and time to generate wealth for themselves and their families to move forward. So retirement savings is not just important for you. It's important for your family.

And then, last we have 5% short term savings. So that stash of 5% of your take home cash, put it into like a savings account, a checking account, or high yield savings account. This is to handle unexpected expenses, like you have a health care expense or you drop your phone and you have to fix the screen or you need a new roof. There's nothing worse than having to dip into debt to handle that. It holds you back from wealth building or liquidating something that's intended to be a long-term instrument like your 401(k) or some of those long-term investments. It's good to start to build a cushion for yourself so that your retirement and all of your wealth building strategies have some room for liftoff.

**JIM:** Super well said. There's nothing worse than having to dip into the reserves that you don't have for expenses that are mandatory, right? I wanted to ask you to talk a little bit more about something you've mentioned a couple of times. This idea of generating wealth for generations. Building it, leaving a legacy to those who follow. I think that can be a goal for a lot of people, but as you mentioned, because of systemic, long-term problems and disadvantages for underrepresented communities, that's been if not impossible, very hard, right? Most importantly, we don't want to say give up. What do you say to somebody that says, look, the system is really hard so how do I do this thing so that my kids and grandkids, as well as me, can be provided for?

**RANDELLE:** So customarily in my personal experience, like maybe if my family legacy or like the inheritance from my grandparents and so on and so forth wasn't financial, it certainly was the message of how important college is, how important education is. It's a big deal. I grew up in a household with two doctorate holders. It's very, very important, and it's very, very serious in the Black community, I would say in general. So with college being a big deal when you look at Historically Black Colleges and Universities, especially 40% of the students are first generation college students.[3] So this is such a really exciting thing to see happening.

And when you think about higher education, you think about a path to a good career, you think about a path to stability and resources and people and opportunities that can help put your life in a different direction? And it costs a lot of money, right? Every year it gets more expensive. It's like one of those places where inflation has had a bigger impact on health care and education just goes up and up and up. If you happen to be in a position where you have extra money or you are thinking about legacy building for the next generation or the generation after, consider college education as a place to contribute. You can consider funding an educational account like a 529. Now, 529 college savings plan offers this appealing combination of tax advantages and the ability to control different elements and a lot of flexibility. And it has minimal impacts on the student's availability for student loans, student aid, right? Things that help you get through college.

The contributions that you make to a 529 are after tax, but any earnings that you have on the investments in the 529 when they're taken out for qualified education expenses are tax free, which is huge; which is huge. It's not just for college; it can be extended to, let's say you have a kid that you want to send to a school that requires tuition for elementary, middle, or high school. You can use up to $10,000 of that money for tuition expenses, which is great access for education and support in the future. And then, also up to $10,000 of that money can be used to pay back your student loans depending on the situation. And we all know also how big tax management is for wealth planning and wealth management. So while the 529 doesn't offer any federal deductions, there are some states that we have a 529 in that state that offers state level deductions or credits and things to manage. So you might have some benefits to take advantage of there that can also help in your own wealth creation as you help the next generation. So I encourage you to look into that if that lines up with your goals.

**JIM:** One more question for you here to pick up on something that you mentioned earlier; home ownership, right? A key way for many, many families; for generations to accumulate wealth and then pass on a legacy, an option that we're finally coming to acknowledge as a society has not been evenly available, right? Some people have been straight up excluded from the process, right? So how do people in those communities start to think now, specifically the Black community, about how to get to that level where they can, again, start to build wealth in a home and then pass that wealth on?

**RANDELLE:** Yeah, there are so many systems in place that are continuing to move forward, but I'm encouraged by the people that we still talk to that they still want to go after their dreams and they are still using tools to get through this. I'll share some of them today. So before that, Pew Charitable Trust had a study in had 2022 just to outline the magnitude of this situation. They found that roughly 75% of White households owned their home, compared to only 45% of Black households. That's a 29-point gap. And they also showed that it's growing from year to year. But that doesn't deter Black people, the Black community from wanting to own homes, right, and desiring that to their financial future. The key to this is putting together a clear plan. Putting a clear plan in place to get there. So one guideline that I share with people when I'm having these discussions is how much house can you afford?

**JIM:** Yeah.

**RANDELLE:** How much house can you afford? A good rule of thumb is looking to get no more than three to five times your annual income in the amount of house, if that makes sense. So your house shouldn't be three to five times your annual income. And if you are one of those people I mentioned before that have a significant amount of debt that you are managing, you may want to scale it down so you have a lower debt mortgage in general. But that's a good rule of thumb for how to move into homeownership more securely. And then anyone buying a primary residence, you know you hear this thing about you'll need a 20% down payment, and some people just take that information for granted and they don't do anything until they have 20% or maybe they decide it's not for them. It's not always true that you need a 20% down payment to buy a home. In fact, it depends on your lender, and it depends on your credit. So anyone buying a primary residence with a credit score of above 580 can qualify for a 3.5 down paid through the Federal Housing Administration, an FHA loan. And if you have a credit score of lower than 500 or as low as 500, I should say, you can qualify for a similar type of loan with just a 10% down payment.

And I say that to say that there are so many people – I mean you have to live somewhere. Most of us are paying to live somewhere. If it's in your financial desires or your goals to purchase a home, it's important to know these details so that you can use that to build wealth for yourself and for your family. And if you are planning to purchase a home within the next through three years and you are trying to save a down payment, we recommend or we suggest that you hold your down payments into a savings account systematically. So maybe you calculate how much of a down payment that you want and when you want the it and you break that down by the months and you create a monthly savings plan, and you go for it, right?

A few tips that are useful here is automation so if you have direct deposit, it's good to go directly from your paycheck to that savings account so that you don't even have to think about it. Automation always works well. And then maybe consider an account that is not attached to where your everyday expenses are happening.

**JIM:** Got it. I feel like this is the quickest 20 minutes we've spent together in a long time on this show, so thank you both for just packing it full of information. Before we go, though, says I would love if you could each just spend a couple of minutes total talking about what you think the big take away from today's discussion was. And Naveen, we'll start with you.

**NAVEEN:** Sure. I think just reflecting on what we discussed earlier, right, the market rallied very strongly in the last three, four months despite some of the tough headlines out there. And just keep that in mind as an investor. Jim, I talked about the possibility of a mild recession this year, and we'll see. That's the view, right? But things could get testy in had the interim. A bunch of different headlines around politics, the economy, or other things happening around the world. And through those moments it can feel very hard to stay disciplined and stay the course and stick to your plan, but the reason that I have seen myself the long-term investor tends to meet success is because yes, they do experience volatility, but more importantly, they are there to benefit from the eventual recoveries and the good times. So that's the one thing I keep in mind this year for investors is it might get choppy out there, but the end of the day with a long-term outlook, if you can stay invested, and it might lead to a good outlook over time.

**RANDELLE:** I would say when we consider the choppiness of the market, the choppiness of circumstances facing the Black community too or anyone really. There are so many different impacts, the key is to having a plan. Have a plan in place for handling your debt, for handling your ability to retire, purchase a home, whatever it is that you desire. Have a plan.

**JIM:** Again, so grateful for your time today. Thanks for being with us and sharing all this fantastic information. Thank you to our audience as well, and a reminder, if you are watching and listening now and interested in learning more about Fidelity's commitment to financial education in the Black community and beyond, you can visit the site that we have up on the screen right now there using that code. You'll find, again, resources, including upcoming future webinars that could help you manage your money.

And as always, if you have questions about building or updating your financial plans, like the ones that Randelle and Naveen were truly just talking about, Fidelity is here to help. You can give us a call; go online to our website; download Fidelity's app. Plenty of ways that we hope that exist for you to learn more. And Naveen, Randelle, thank you so much for your time. Thank everybody for watching, and we hope to he so you back here next week.

[1] "Black Women, Trust, & The Financial Services Industry". The American College for Economic Empowerment and Equality.

[2] Federal Reserve Board, 2019 Survey of Consumer Finances.

[3] Liann Herder. "UNCF Report Reveals Social Mobility Made More Possible HBCUs". Diverse: Issues in Higher Education. November 18, 2021.