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TRANSCRIPT

SPEAKERS:

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HEATHER HEGEDUS: Hello there, everybody, and thank you so much for making the time to join us today for *Market Sense*. I'm Heather Hegedus with Fidelity. So you know, it is an important week this week for the economy and the markets.

Right now, the Fed is meeting as we speak, and this is the first Fed meeting of 2025. It's also the first Fed meeting since Donald Trump was sworn in for a second term last week. This as a lot has already happened this week.

So, yesterday, stocks slump with the NASDAQ losing more than 3% at close yesterday over concerns that this cheaper artificial intelligence model from China may be a sign that Chinese research and development in that area could pose a threat to US tech stocks. But we've pointed this out before here on *Market Sense,* and I'm going to point it out again. That was just one day in the markets, and right now, all the major indices are up at this moment.

So we're watching. But to talk about what all this might mean for investors and how investors might want to think about all of this, we are joined today, as we often are, by Jurrien Timmer, of course, Fidelity's Director of Global Macro. And we're also extra fortunate today, because we are joined today by not one, but two, Fidelity branch leaders who are at the top of their game.

We've got Leanna Devinney, who is here in the Boston area, and we've also got Kenny Davin, who is down in the Fort Lauderdale, Florida area, and he helps a lot of clients down there through the retirement process, as you might expect, down there in Florida. And they're going to be helping to answer some of our most common customer and viewer questions that we've gotten, which people submitted through registration. So thank you to the three of you for making the time to join us today.

KENNY DAVIN: Hello, it's always a pleasure to be here.

LEANNA DEVINNEY: Thank you. Excited to be back.

JURRIEN TIMMER: Great to see you all. Welcome back, Leanna.

HEATHER: All right, let's get this started. Today is Tuesday, January 28, and let's start by talking, first of all, about this cheaper AI model from China and how it might impact the US markets, if at all. First of all, can you can you say for our viewers who might be concerned, how big of a threat is this to the dominance of US tech stocks and to the Mag Seven? Is it concerning enough that investors with a lot of US tech in their portfolios might want to think about selling? Or, as I said, was this just one day in the markets, and is some friendly competition healthy in a way?

JURRIEN: Well, it's part of the, I guess, creative destruction of what we see in the tech world and what we've always seen in the tech world. I mean, just go back to the internet days of the 1990s, and this was really—this came out of left field. And it's interesting, because we've talked a lot about sort of the known, unknowns of the new administration, what it means for immigration policy, for trade policy, what it means for the Fed, and interest rates, and bond yields, and whether they continue to rise.

But this DeepSeek story really came out of nowhere, and the story is that it can do AI as well, supposedly—and I'm not an AI expert, but that it can do it as well as the big apps that we have in the US, but at less of an of an operating lift, if you will. And I think, ultimately, that's actually good for everyone, because that means that we can all have our smart AI assistant maybe at less of a cost than we thought before and that there will be less of a need to build out all that infrastructure. But again, it raises the question of the reality of today's market, which is that it is very top heavy, right?

So these Magnificent Seven that are largely operating in that space are a third of the market. And, if something comes in, and it disrupts that order, as we saw yesterday, those stocks will go down, and they may not stay down. But yesterday, they went down, as well as all the other stocks did, and many of the other stocks in the market did pretty well. You don't really see it if you're, let's say, in an index fund or an S&P 500 ETF, because those seven stocks are just going to drag the index lower, even though the other 493 stocks might be going up. And that is one of the realities of today's market that, I think, we all as investors have to navigate is, how do you position yourself, so that you don't have those seven eggs in one basket, you know?

And it's a math question more so than a market question. You know, ultimately, the AI story means that all the stuff that's being built by these companies will bear fruit for the rest of us, right? We'll have that smart assistant, even if we're not working in one of those companies, that will just make us more productive. So that is the ultimate goal, and how we get there, you know,

it matters. But if there are cheaper competitors out there who can bring this to us faster, I think, that's basically good for everyone. But in the meantime, what yesterday showed is that the market can get lopsided, and we need to figure out a way to navigate that.

HEATHER: A lot of people will be watching this. You know, could this be the next space race? But again, yesterday, just one day in the markets, and this will certainly be playing out for weeks and weeks to come.

Let's talk about the FOMC meeting happening today and tomorrow. What do you think is on Fed leaders' minds right now, Jurrien?

JURRIEN: I think the Fed feels probably pretty good that things have continued to move broadly in the right direction, right? So the Fed has a dual mandate, full employment and price stability, and the Fed's target, of course, for the inflation rate is 2%. We're not at 2%. We're more, like, at 2.8 or so. And even though that still means that prices are 2.8% higher than they were a year ago, they're not rising at the 9% rate that they were back in 2022.

So that is—at least, in an economist's mind, that is good news. And the labor market has been restored to balance, because the economy reopened. It shut down during COVID. It reopened very quickly, and the labor market wasn't quite there to facilitate that. So people came back into the labor force.

You know, the borders reopened, all that stuff. So that market is in balance, but we do have an unclear, or we don't know exactly how the president's immigration policy is going to manifest itself. And also, we're talking a lot about animal spirits and the economy sort of surging again. What that will do to inflation is not known.

So I think, if I were at the Fed, the Fed dropped rates by one percentage points last year, 100 basis points. The market's expecting another 25 basis points, another quarter point cut at some point this year. The economy clearly doesn't really need it. The economy is pretty resilient right now.

So if I were the Fed, I would just say, you know what? Let's keep our powder dry, and we can ease if we need to. But right now, we don't need to, and let's just make sure that inflation actually is going in the direction that we think it will. So if I were at the Fed, and I'm not, but that's what I would do.

And I'm more concerned not about short rates, which is what the Fed sets directly, but more about long rates and what happens to long term government bond yields. That is an area that the market, I think, probably, at this point, cares more about, because as bonds become more competitive with stocks, as yields go up, and they're about 4.5%, 4.6% right now, the stock market needs to work a little harder to remain competitive. So long yields, I think, have a more

direct influence on the stock market than short rates, and of course, long yields have an influence on mortgage rates, which, of course, is very important for many people.

HEATHER: Yeah, it has an influence on 10 year treasuries, on mortgage rates, on—I want you to hold that thought, because we're going to get into bonds and long rates a little bit in this show, because that is one of the questions that viewers submitted to us. But, as I mentioned, you know, we are joined by two of our favorite Fidelity branch representatives here today, too, to field some of these hundreds of viewers questions that we get every week here on *Market Sense*. So I know it's probably a pretty busy time of year right now in the investor centers.

We've got tax season right around the corner. It's a new year. People might be rethinking their investment strategies. So, Kenny, how is it down there in Florida? Are you guys pretty busy right now?

KENNY: Absolutely. It's indeed a really busy time. In addition to preparing for tax season, a new year brings really a fresh opportunity for investors to re-examine financial priorities, goals, and just their overall financial health. Many clients want to know, where do they stand, and what can they do to improve or protect things going forward?

So many times, it's an opportunity to audit areas in terms of risk, fees, and taxes when it comes to the investments. For others, this is the year to finally take action, take action on financial priorities, like actually creating a plan, getting invested and establishing an estate plan to name a few. These things have been top of mind, but maybe some have forgotten about it or have not gotten around to it for one reason or another. I must add that many clients, they are asking about our latest thinking about the markets and the economy, and my team of financial advisors have really found our 2025 outlook show very helpful to have these conversations for clients. You can still check it out on Fidelity's website by going to fidelity.com/marketsense or YouTube as it is available as a podcast as well.

HEATHER: I appreciate that plug, Kenny. How about you, Leanna? You guys pretty busy here in the Massachusetts area?

LEANNA: We are, and I agree with Kenny. The start of the year is just a great way to get organized wherever you are on your financial journey, and Fidelity does an annual study every year on the sentiment of Americans with their finances. So this year's study going into 2025, I thought that this was really nice to see that Americans are leaning into 2025 more sensibly.

So we saw sensibly and practically. Also, though, the sentiment and the same concerns that we continue to hear has been things, like inflation, economic uncertainty, and also the ability to prioritize and plan for the multiple financial goals that you may have. So I think all of these topics are really timely, because this is what we do, day in and day out, in the investor centers all year round.

So we help investors plan for the goals that they have, and that could be building up a savings account. That could be investing for longer term goals, like retirement. It could be sending children or grandchildren off to college. So all important work, understanding what your priorities are, and I think it's also just a helpful reminder that we help navigate what your goals are with a financial professional and go through that analysis with you. So all things that we do and help with.

HEATHER: You know, every week, viewers submit questions to us, as I mentioned, when they register to watch our show, and we get a wide range of questions, of course. But one theme that we get a lot of questions on is the topic of retirement, and I think, basically, at the crux of it, what most people really want to know is, have I saved enough, do I have to play catch up, or am I in a good place right now? Or maybe they want to know, can I retire today?

If everything fell apart, or if my personal circumstances changed, could I just stop working today? And I know that those are questions you both probably get in your branches. So I'm wondering if you can walk us through how those conversations go.

KENNY: That's a great question, and I often tell clients that you can retire anytime, as long as you can support your desired lifestyle and retirement. Now, when you hear that from me, it might sound surprising or even crazy to some, but it's true if you think about it. Now, of course, everyone's situation is going to be unique. Most clients don't need just food and shelter when you retire, and of course, there's certain risks that we need to account for, like medical expenses and the length of your retirement.

I once heard a joke that someone said that I can live comfortably, if I retire today, for the rest of the year. Clearly, we want to plan for a lot longer than that, because retirement could be for several decades. And that's why, really, sitting down with someone, going through a financial plan is really critical, because it really helps you see where you stand, gives you a clear roadmap of what you need to do to get closer to your goals. I really invite you to not shy away from that conversation out of fear of what the results might show, because knowing where you stand is the key, and sometimes, you might be pleasantly surprised to find out that, as you go through this analysis, it may reveal that you can potentially retire sooner than expected. And I've been chatting with Leanna, and you've had a similar example of that, right?

LEANNA: I did. I was telling Kenny about a client who lives local to our investor center, a single mom, you know, raised her daughters, sent them off to college. She works in a local store around the corner from our office, and we shared with her that she could retire, and she was really emotional, because she felt that she never was going to be able to.

She always felt that she was playing catch up. So I think it's important, as Kenny shared, to go through the financial planning process, and it's really for us, it's anchored in our analysis. We take a look at your whole financial picture.

As I talked about this client, we're taking a look at your income. So, what is it now? What is it going to be in retirement? Maybe a pension, social security, rental income. What is your wealth look like? So your retirement accounts, like your 401(k), other retirement accounts, like IRAs, non-retirement accounts, like brokerage and savings accounts.

Then we're going to take a look at your expenses and understanding the lifestyle you want in retirement. For many, we're encouraging retirement beyond one year, as Kenny shared, decades of good retirement. But we want to take a look at your spending, savings, your monthly expenses, and then set up that investment strategy to maintain the lifestyle that you're looking for. And we help do this against many of the key risks that we face in retirement, longevity, inflation, withdrawing, market risk. So all things we do in this great analysis.

HEATHER: Well, what a gift to be able to give that client that peace of mind, and that news, and just knowing that she's going to be OK. So that's great. You guys have great jobs, very fulfilling jobs, at times, I'm sure.

We also get a ton of questions from retirees about the best ways to then take retirement income, whether it's social security, or annuities, or dividends. There's lots of different options there, and I know this is something that your team helps clients sort out, Leanna. So how do those conversations go, Leanna?

LEANNA: This comes up so often. You know, I think we spend our whole working life trying to maximize our savings, contributing to a retirement plan. And then the big question is, well, how do I turn this into an income stream? Like, what's my retirement paycheck going to look like?

And one of our core beliefs, you know, just like we believe in diversifying our investments, it's really advantageous to diversify the way you take income. So many will have social security. Some will have pensions. But then as you mentioned, you can live off dividends.

You might have just withdrawing investments from your plan. We help kind of navigate this with our clients. Recently, we worked with clients to show the power of deferring their social security, the benefits of doing that to age 70. That gave a greater payout.

So many ways to take income. We collaborate with you. There isn't one solution, not one silver bullet by any means, but we do have a great planning and guidance center with an income planning strategy evaluator that you can do so by working with a financial planner.

HEATHER: All right, switching topics to a topic that Jurrien touched on, and that would be bonds. And we hear a lot from viewers that they'd like a little bit more explanation on bonds, because, quite frankly, it is a complex topic sometimes. And as of late, Jurrien's been speaking a lot about how bonds and stocks are more positively correlated right now than they have been in

recent decades, which just, in layman's terms, means they are more likely to be falling and rising at the same time rather than at different times.

You know, bonds, though, have been historically less volatile than stocks, and I know your teams are talking with clients right now about this, too, and how much of your client's portfolios they may want to invest right now in stocks versus bonds, given this positive correlation. So what are you saying to clients right now, Leanna? Is there any rebalancing going on because of this?

LEANNA: Yeah, well, I mean, I think it's a good reminder. We mentioned yesterday, the stock market dropped 3%. Historically, we don't see that a day in the bond world. They're less volatile. They've always played a role in seeking to provide stability, while also seeking to provide income.

And I think many investors over the last many years have just shared bonds have felt challenging, because they're not getting that income, and they've gravitated more towards cash and money markets. So I think it's important to just remember the role bonds can play in a diversified portfolio, even in our growth portfolios. If you're farther away from your goals or more shorter intermediate term goals, bonds can play a role.

And we were talking about this before the show, just looking at the bond index now. I think Jurrien quoted above 4.6% now, the yield. Now, that's above current money market rates. So it's just a reminder that, over time, bonds can play a really important role in a diversified portfolio.

JURRIEN: Yeah, and I would just add, maybe five years ago, bonds yielded very little, but they were excellent insurance against drops in the stock market. Now with correlations being positive, you don't get the insurance necessarily, but you do get the yield. So it's never a free lunch.

But if you think about bonds, let's say, you buy a 10 year bond, and you never sell it. The yields you get on that bond today is the return you're going to earn. So if you buy a bond at 5% yield, you're going to get 5% a year if you hold it to the end.

So right now, 4.5%, 5% for investment grade bonds, inflation is in the two's. You're getting a positive, real yield, even if you don't get that kind of insurance of that negative correlation anymore. So there are always reasons to own bonds. It just depends on what the reason is.

HEATHER: Got it. No such thing as a free lunch, but certainly, you made some really good points there about reasons to own bonds. Lastly, we've gotten a lot of questions about how to preserve and protect your assets over time. And Kenny, you know, let's say, you have a customer who's been getting a great yield in a cash account or CD over the past few years, and they know that rates have been coming down.

But maybe they're a little bit worried right now about market volatility and preserving their assets, so they're sort of afraid to get back into the game, so to speak. I'm sure this is a common scenario that you see a lot given where rates have been. So what do you say to customers who are questioning how much to keep in cash at this point and how to get back into the market, if they're holding on to some excess cash?

KENNY: Yeah, that's a great question. If you've been enjoying a good yield on your cash account or your CDs, it's totally understandable to be concerned about the rates coming down and market volatility going up. But I invite you to think of it this way.

We have a chart here that shows all the things that can happen in 20, 30 years, 40 years, global pandemics, wars. A lot can happen in 20, 30 years. Excuse me. Let's help you make a plan for that and what that might look like for you.

But as you look at the chart, the biggest takeaway is that, while markets aren't predictable, they have shown an upward trend, and investors really need to balance the need for safety, along with the need for growth. And holding on to cash and the fixed investments, they could make a lot of sense to help you prepare for emergencies, large planned expenses, some protection. However, holding excess cash beyond those purposes may not be the best solution for long term, supporting those long term goals that we're looking at over 20, 30 year time frame.

And I've said this before in the previous episode, there's a risk if you're too aggressive, but there's also a risk if you're too conservative, as well, and not growing assets enough to keep up with the future costs due to inflation. That's a risk. So in summary, you can't control the markets, but what you can control is your plan and, really, how you allocate your resources.

So I invite you to consider developing a strategy that's really going to assign different roles and responsibilities to your resources, so having some funds earmarked for emergencies, protection, and growth. And of course, if you're heavy in cash and concerned about when to get in, we at Fidelity, we believe that your time in the market is more important than timing the market. So the funds that are really earmarked for long term growth should just get invested to that growth objective and really stay invested. At the very least, consider dollar cost averaging, which is another option, and that's investing a fixed amount regularly, until you're fully invested.

HEATHER: All right, fantastic reminders there. Before we go, just quickly, can we do a quick Timmer's Take, Jurrien? What are you watching right now? What's on your mind?

JURRIEN: We are in the middle of fourth quarter earnings season, and that's always a very important time to see how the earnings side of the market continues to hold up, which it "has been.

HEATHER: All right, terrific perspective from the three of you. Thank you so much to all of you, and we did cover a lot of ground today. But as I mentioned, a lot of the questions were retirement related.

So we did want to let you know that for more retirement resources, including a step by step guide to help you make some of those really important decisions about your money, and a retirement calculator, and also a link to schedule an appointment with a professional, like Kenny or Leanna, you can go to fidelity.com/retirementincome. That's fidelity.com/retirementincome. Or at the end of this webcast, you can download slides from the webcast on our website, and we will have a QR code to that page, as well, in those downloadable slides after the show is over.

So on behalf of Jurrien, Leanna, and Kenny, thanks so much for your time. Have a great day, and we'll see you next week. Remember, we are on Tuesdays at 2:00 Eastern.

[1]Bloomberg, January 27, 2025: https://www.bloomberg.com/news/articles/2025-01-26/asia-eyes-cautious-open-as-tariffs-remain-in-focus-markets-wrap

[2]Bloomberg, January 23, 2025: https://www.bloomberg.com/news/articles/2025-01-23/stock-market-today-dow-s-p-live-updates

[3]Bloomberg, January 23, 2025: https://www.bloomberg.com/news/articles/2025-01-23/us-treasury-adds-new-measure-to-avert-a-debt-ceiling-breach

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