Fidelity Viewpoints®: Market Sense

Week 155 April 22, 2025

TRANSCRIPT

SPEAKERS:

Heather Hegedus Jurrien Timmer Kenny Davin

HEATHER HEGEDUS: Hello there and thank you so much for making the time today to join us for *Market Sense* and taking time out of your busy lives for this conversation. I'm Heather Hegedus with Fidelity.

So the market's rallying today after another sell-off yesterday. It's sort been a lot of up and down on Wall Street recently. 10-year treasuries and stocks were both down yesterday. The dollar index weakened to a 15-month low. So it seems that uncertainty and tariffs continue to drive this market's choppiness. And we are all here still riding those uncertainty waves.

Also, financial earnings season continues this week and companies are still trying to anticipate the potential impacts of tariffs. So we'll be listening intently to what some of those companies have to say.

Today, we're going to try to make sense of it all with one of our favorites here at Fidelity. Of course, it is Fidelity's Director of Global Macro, Jurrien Timmer. We're also pleased to be joined today by one of our favorites from down south. We are joined by Fidelity branch leader Kenny Davin. He is a branch leader in the Fort Lauderdale area who's been helping clients navigate the retirement process amid this market volatility for years. And he's going to be helping us dig into some of the key questions that we've been getting from you, our audience, over the past few weeks.

So thank you, both of you, for making time. I know that you're both particularly busy right now. And it's such a pleasure to see you both.

KENNY DAVIN: Yeah, thank you for having me. It's a pleasure to be here.

JURRIEN TIMMER: And greetings from my mom's kitchen in Holland. And good to see you all.

HEATHER: Well, you're such a world traveler, Jurrien, but we love it that you never miss a Tuesday if you can help it. And today is Tuesday, April 22, so it's been about three weeks now since this most recent period of market volatility started that we've been talking about every week here on *Market Sense,* Jurrien. So I thought it might be a good idea to sort of set the table, since you're in the kitchen, so to speak, and talk about where the stock market is right now.

JURRIEN: Yeah, so the market continues to try to find its footing. Obviously it's been a roller coaster for the last nine weeks or so, I guess, since the highs in February.

And I think of it as a store putting its merchandise on sale because there's not enough buyers. And you start by discounting stuff at 10%, you see who shows up. And then if that doesn't work, you go to 20%. And essentially that's what the market has done, right? It fell 10% in the first few weeks after the talk reemerged about tariffs. And it found its footing—and, of course, 10% corrections are really nothing in the grand scheme of things. The market is below its—it's 10% lower 40% of the time.

And then we had the bigger news of April 2 about bigger tariffs and then it went down 20%, 21% to be exact. And we're now between that 20% threshold and the 10% threshold. And my guess is we might be there for a while and the markets are just trying to figure out where this thing is going and what the new rules of the road are and what that means for earnings, et cetera. And I think that's—markets are always in price discovery, markets never sleep. And that's where we are, just trying to figure out what the "new normal" is, if you will.

HEATHER: OK. So I think something you just said really bears repeating or emphasizing, that the market is down 10% around 40% of the time. So that's almost close to 50% in my book, Jurrien. So that's obviously something to take into consideration when you're trying to zoom out and look at the bigger picture here.

To your point on investors wondering what this all means, as the market tries to find its footing, investors are wondering if this is something that we might be able to put behind us soon, or could there be further declines that could lead to a steeper bear market. I know you watch market signals every single day. What is the market processing right now? And what are those signals telling you?

JURRIEN: Yeah, I would say there are two dimensions. So there's the near-term, the more micro, and that really is around, OK, we're going to have tariffs, it seems that way—we have the 10% reciprocal tariff, we have other tariffs with China. And if that's all there is, then it's just a matter of math. You make some assumptions about how much of those tariffs companies have to absorb in their profit margin, how many get passed on to consumers. That gives you new equations for inflation, for profits. You start marking down the profit numbers, which is what we're seeing now, not so much for the first quarter, which is being reported right now, but for the next few quarters. And those growth rates have come down by a couple of percent, which makes sense.

And so if that's all there is, it's kind of a mechanical price adjustment. It's a one-time thing. But, of course, we don't know if that's all there is because the news is flowing every day. And yesterday, it was really bad. Today, it's better. And tomorrow will be another day.

And so that uncertainty, that policy uncertainty where we don't really know what the next nail is, I think is keeping the markets on edge. And investors don't like uncertainty. So when there is uncertainty, they want to get compensated. And that means that valuations come down. And that's basically what we've seen.

But the good news is the PE ratio on the S&P 500 has fallen from 25 times earnings to 19. The PE on the "Magnificent Seven," those really big tech companies, has fallen from 40 times to 25 times. So that's a significant concession, if you will, that allows the market to absorb slower earnings growth, if that's indeed what we get. And so there are some rays of hope there. Credit spreads, another sort of barometer on the health of the economy, are relatively stable. And so the markets are just trying to find their footing. But that's the near-term.

The longer term is really about is this bringing in a new sort of world order of where the US is no longer dominating the world stage in terms of markets. And that's why you see, for instance, the dollar down, bond yields up, and the stock market down all at the same time, which is pretty unusual. And that's a story that still is in the very early chapters. And it's going to take some time to figure that one out. But we will do it together in the coming months.

HEATHER: We sure will do it together. And there's nobody who I would rather have watching this all beside me and interpreting it and giving us their take on it than you, Jurrien, so thank you so much. So stand by. I do have a couple—you had mentioned the bond market and I do want to come back to you on that question in a moment.

But I wanted to bring Kenny into this discussion. Because, Kenny, you work with clients every day. And with so much volatility happening, I think it is fair to say that it has been tough for clients to watch these news headlines flow, as Jurrien said, and not have in the back of their minds, what does this mean for my retirement nest egg that I've worked so hard to build up, right? So I would love it if you could just start off, Kenny, by walking us through what it's been like in your branch the past couple of weeks and what you've been saying to clients who are expressing candid, real fears right now when they see the markets go down like they did yesterday.

KENNY: Yeah, absolutely. First off, it's a privilege to really lead wealth management teams and be on the other side of these conversations with clients. That nest egg really represents more than just money. For many of our clients, it embodies freedom, sacrifice, years of savings, and delayed gratification, their legacy, to name a few things. So we really approach these conversations with a lot of empathy, knowing that money is deeply personal. And seeing the values of their accounts go up and down, it could be perceived as a threat to what's truly important to them, like their legacy and their independence and dignity as they go through retirement.

Our approach to helping our clients really involve three key actions. The first thing is really prioritizing listening. We're really taking the time to understand and discover our clients' why. What does this money represent? Who are we investing for? What are some of the real concerns? By really understanding our client's story, not assuming that it's everything, that they're being impacted the same way, it really builds trust and gets us all on the same page.

The second step is going through a planning analysis. And that typically involves assessing where they stand against their goals, going through their probability of success through various market conditions, and also discussing the impact of different situations and scenarios going through what if scenario planning.

And then the third step, lastly, we help clients implement strategies that are really directly in alignment with addressing and helping them achieve their goals, as well as addressing their concerns that can provide them peace of mind during times like this. So I'll get into what that might look like in a little bit.

But listening, planning, and implementing strategies, it's definitely the three actions that we've been doing to help our clients during these times.

HEATHER: And Kenny, many of the questions we have gotten this week are from people who are really close to retirement and they're getting ready to pull from their 401(k), which might represent years of sacrifice, of taking money out of your paycheck routinely for and getting ready now to draw down that income that they had been building.

Just a couple of your questions that we got this week came from somebody named Ray, also somebody named Monique, who both asked us about asset allocation. They both wanted to know if this is the time to be making changes to their portfolios, given what's going on right now. And some members of our audience are really close to retirement, so perhaps somebody is a year out from retirement and is wondering if that means they only have a year now to recapture what they lost. I was hoping you could explain for us, is that the way it really works? And is it possible to recapture loss when you're only one year out from that retirement goal?

KENNY: Yeah, well, we appreciate the question. We know that people that might feel the most stressed during times like this are those who are near or in retirement. Sometimes I hear, I don't have long-term, I'm retiring next year or in one to two years. But here's the reality, even though we're starting to take withdrawals within one or two years, we're typically needing the funds to support a 30-plus year retirement, or at least we hope so, right?

HEATHER: Right.

KENNY: So, really, thinking long-term does matter. And we need to consider a time frame that could be potentially several decades.

When it comes to your asset allocation, that's typically influenced by several factors that are beyond the current market environment. They typically include things like your overall financial situation, when you're going to start withdrawals, how much we're going to withdraw, and, of course, your overall risk tolerance. And if your asset allocation is aligned with all of those things, then staying the course is usually the best approach.

Before making any changes, it's important to really assess what's actually changed in your life or your personal situation to really warrant that change, because frequent changes—if you find yourself really going back and forth, going from being conservative to aggressive and back and forth, that may be more market timing—which could be a common mistake we see a lot of investors make—and it really could derail your plans if you're buying and selling at the wrong time.

At the heart of this, what I would say is that many of the people that are near or in retirement, what they get that feeling of is being at the wrong place at the wrong time. And what I mean by that is that experiencing a downturn, especially in the first initial couple of years of retirement. So we want to be mindful of that. And it's valid. There's actually a term for that, it's called sequence of returns risk.

So it's a valid concern, but we want to be mindful that selling out, although it might seem like the rational thing to do—like that instinct, stopping the bleeding—what it might do is just make things worse because we're making the losses permanent. So alternative strategies might really be potentially cutting back on certain discretionary expenses, rebalancing—you know, not locking in a loss. Instead of maybe flying to Naples, Italy this summer, maybe take a road trip to Naples, Florida, which is beautiful as well.

HEATHER: Which is lovely too, right? You're down in Florida, right?

KENNY: Absolutely, yep.

HEATHER: It's not a totally unfair trade-off there.

KENNY: No, not at all.

HEATHER: And I like what you said about maybe having a little bit of a mind shift and not just thinking of retiring as, it's one year out for me. So that's it. And it's a finite thing. That's it. Retirement's over.

No, we all hope that we live long, healthy lives, and we have a very long and full retirement. So we really need to still plan for the long game because retirement might be three decades. So I think that's a really important point.

Let's talk about for people who are in retirement, what your guidance would be for them. And one of our very regular *Market Sense* community members, Gary, asked us, for those of us who are well into our retired years, who we have fewer and fewer years for the market to recover, What strategies apply to us? What's your answer for Gary?

KENNY: For Gary and all of the retirees out there, if you haven't implemented plan and reviewed regularly, it's likely best to just stick with it. However, if you don't have a plan, or it's been a while since it's been reviewed, now's a good time to really take a closer look at things. Retirees do face many risks, and market volatility happens to just be one of them. And it's challenging to provide help on *Market Sense* without understanding your own unique situation. So that's why I usually recommend seeking a financial professional, a planner that's really going to give your personal situation the attention it deserves.

I'll give you two examples. If you're withdrawing more than what's sustainable, it's probably necessary to adjust your withdrawal strategy regardless of what's happening in the markets. The other thing to keep in mind is that market volatility is normal, and we're going to continue to experience it throughout the retirement. So if it makes you uncomfortable, reviewing your income strategy is definitely something that's worthwhile.

So that way you're not relying on the stock market fully for all of your income needs. So bottom line, you just want to make sure that your strategy aligns with your risk tolerance, your time frame, and your overall financial needs. So that way you have a stable retirement and you can stick with the plan.

HEATHER: How about, Kenny, for clients who vocalize to you that at this point in this kind of a climate, they would rather keep their money in their bank accounts rather than in investment accounts? I know you've actually shared with me before that you actually talked a client through this very scenario recently, and that client later on told you he was happy that he stayed the course. And of course, we never reveal any information that would reveal who this client is. But can you talk about how you worked through those very real feelings with this client of yours?

KENNY: Sure In this client situation, he made the decision to retire. It's well deserved after working for several decades. We implemented a plan, and he turned in his paperwork to retire early February 2020. Just a reminder what the headlines were a month later—recession concerns, pandemic virus, a lot of uncertainty and volatility. Could you imagine being this person who turned in their paperwork to retire? Only now that you need to rely on your investments to pay for your retirement, when the country is essentially shutting down. Quite scary, right?

HEATHER: March of 2020, Jurrien, you know that well, right? When this show started, because the headlines were changing by the hour at that point.

KENNY: Yeah. As a matter of fact, one question that he had was should he change his decision to retire. We went back to reviewing the plan, and I was able to share episodes from market since to give them the reassurance that he needed. He ended up gaining the confidence to stick with his plan.

And five years later, we met. And again, we've been meeting over every year. But the decision to retire was not one that he regretted. He actually has a great retirement, lots of confidence. And he's thriving.

But what you can see from this story is that even if you have a really good financial plan in place, fear is going to be normal. What's important is how you make decisions and making sure that those decisions are not based on fear. It really comes down to having a good relationship with a financial planner, having an implemented plan, of course, and that typically includes having an emergency fund, some form of protection and growth.

HEATHER: Kenny, we've also been getting a lot of audience questions about cash and more liquid assets. One of our audience members, James, wrote, should I get into cash now? As you mentioned earlier, we would never endorse market timing or pulling all of your money out of the stock market. But if you do have a client who says that they would like to have a portion of their assets in more low risk investments, what would your response be?

KENNY: Yeah, first off, I'll be clear. Investors need growth potential that's offered by stocks. Especially during these times, we're concerned about inflation, the impact of tariffs. We need that power of compounding that could come from owning stocks and being invested. And of course, we believe a well-diversified portfolio can achieve just that.

Of course we're not going to endorse market timing either. In fact, what will happen is that some of the best times may happen when it may look like we're experiencing some of the worst days. You may be seeing a chart. I'll walk you through it because I know some of us are listening as a podcast. And believe it or not, some of the top days with the highest returns in the S&P 500 typically happen during a bear market or within the first two months of a bull market.

So it's really important to think that through. But if you're really adamant about potentially reducing the risk for a portion, not all, a portion of your wealth, there's really three options that you could consider. Number one, you can avoid the risk, focusing on investments that offer fixed rates. Think of things like CDs, treasuries, fixed deferred annuities. These options prioritize principal preservation.

The second option is managing the risk, and that's done through your investment choices. That means focusing on defensive investments. For example, portfolios that include conservative stocks, higher quality bonds. They still have ups and downs, but they can just offer a smoother ride because you're focusing more on quality.

And then lastly, you can transfer the risk, which would involve using certain types of annuities backed by insurance companies. So you can either avoid, manage, or transfer the risk. Whichever you choose, it's important to really think about these strategies that they have different trade offs, and this is where a financial professional can be very impactful to going over that, discussing it in further regards to your personal situation, and understand your preferences to guide you the right way.

But bottom line, staying invested is the key. I believe the best strategy is the one that you're able to stick with and having these regular checkups with your advisor. It's really a good idea just to give you reassurance and just discuss different options, especially during times of stress, rather than abandoning your strategy.

HEATHER: You mentioned regular checkups with your advisors. And something that I've heard Jurrien say before that I think is a great analogy is that for our physical health, we get regular checkups even when we're well, right? We get routine well visits or annual checkups when we're feeling great. You don't just call the doctor when you're sick.

So the same thing is true of your financial health. You want to have regular financial checkups with a professional, and not just during times of stress. That is vitally important to your financial health. So Jurrien, just to bring you back in here because Kenny mentioned treasuries, and you've been talking a little bit about bonds over the past couple of weeks here on *Market Sense* and some of the volatility in the US treasury market, including a few days of sell offs.

And some economists have been saying this could potentially mean a warning sign coming from the bond market that there is more volatility ahead. But could this actually be an opportunity, a buying opportunity, Jurrien, for retirees or anybody who's looking for a little bit more stable investment income to Kenny's point about more quality investments? What do you think?

JURRIEN: Yeah. To Kenny's point, and it's always a good time to visit with Kenny or his colleagues all around the country. We have a vast amount of wealth to share. We have a very big menu of investment portfolio types to choose from. And certainly, those will include bonds. They'll include, obviously, stocks, other assets, global assets.

And this market tremor that we've had over the last few weeks is a good reminder to maintain a diversified portfolio. And as Kenny said, don't try to market time because a, you need to get two timings right. You may think you're a genius selling at the top, but then you've still got to buy it back at some point.

And as we've learned through many, many cycles, price always moves ahead of the fundamentals, and it doesn't even always move correctly. We see the lurching back and forth now. But if you are following headlines, you're probably always going to be too late because the market reprice is much faster than you or I can change our portfolio.

So it's better just to be in a solid strategy with regular rebalancing. And those strategies probably should include bonds at 4.5% for the 10 year treasury and close to 6% on a sort of diversified investment grade portfolio. There's a lot of value there. Inflation is running about two and a half. And even if it goes to three, you're still getting a spread. You're getting a positive real yield.

And even if interest rates go up some more, you actually benefit over the long term because those coupons that you're going to earn would get reinvested at a higher yield. So the anchors of a portfolio are probably always going to be stocks and bonds. And we can sprinkle all kinds of other things in there. And maybe some short term investments with cash being competitive. And there are other kinds of investments as well.

But to be diversified and to trust the process, check in with Kenny and his colleagues to give you that sense of confidence that you're in the right place. That's really all we can do right now while we ride out this squall or storm or whatever you want to call it. And again, knowing that the market goes up more than it goes down, but it does go down once in a while, and we don't like it. But that's the price of admission to get those juicy returns over the long term.

HEATHER: What goes up must occasionally go down, Jurrien. And we're right up against the clock. I'd love to squeeze in one final viewer question for you, Kenny. This one came from Elise, who was wondering about whether investing some of her investing money could be put to better use outside of her portfolio right now. And she wanted to know if she should pull her money out of her retirement accounts to pay off her mortgage. What are your thoughts on that, Kenny?

KENNY: Yeah, if you're already invested and worried about market volatility, selling your investments from your retirement accounts when they're down to pay mortgage debt, it might be worth reconsidering. Markets typically recover—like Jurrien said, locking in your losses right now could really hurt your chances of retirement. Another factor to consider is taxes and penalties.

That depends on your age, the retirement account. It just makes the transaction a little bit more expensive and potentially dilute that benefit.

I would say that paying off debt, it's usually a SMART goal. But how high up the priority list that goal should be, it really depends on the type of debt. So when you think about high interest debt, that's considered higher priority. So that's debt like credit cards, personal loans. But mortgages, they typically come with lower interest rates. The interest could be tax deductible. So paying it off early might not necessarily be the highest priority.

Having that being said, it can differ from client to client. What account are we coming from? How much is the actual mortgage? So we really want to have a discussion. And this is why, again, reaching out with a professional, having the conversation, exploring the different options—and you may even need to include your tax advisor. That way you don't sacrifice your retirement goals and potentially become house rich but cash poor.

HEATHER: Right. I'm sure that when you lock that mortgage in does matter, and that's why you'd want to sit down with a professional like Kenny, and like you said, maybe a tax person as well. Great discussion, guys. Before we go, we call this final minute of our show, Timmer's take where we like to ask Jurrien his take on what's going on right now with the markets and what he's watching this week. So, Jurrien, what are you watching right now? Give us a quick Timmer's take.

JURRIEN: We're in Q1 earnings season. We're not going to learn that much because it's in the past. But the guidance from companies towards second third quarter earnings to what degree those are getting marked down, I think is the next piece of the puzzle that we're watching here.

HEATHER: All right. Got to leave it at that. But thank you so much to both of you. Great answers there. And we appreciate everybody who sent in questions to fantastic questions. Please keep them coming because as you can see, we truly do read all of your questions and incorporate them in our episodes.

Also, we'd like to leave you with a resource at the end of the show, and if you're looking for more ways to stay on top of the markets, be sure to bookmark the page. It's on your screen right now. It's fidelity.com/market-volatility there. There, Fidelity Viewpoints team is always updating that site with the latest market headlines and what it could mean for your investments. And there's a link to *Market Sense,* so you can watch a catalog of some of our past episodes as well.

On behalf of Jurrien Timmer and Kenny Davin, thanks again for making the time today. I'm Heather Hegedus. Don't forget. We're on Tuesdays at 2:00 o'clock Eastern. Hope to see you back here next week.

[1]Fidelity Viewpoints, March 14, 2025: https://www.fidelity.com/learning- center/personal-finance/retirement/inflation-and-volatility

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.

It is not possible to invest directly in an index.

Fidelity Wealth Services provides non-discretionary financial planning and discretionary investment management through one or more Portfolio Advisory Services accounts for a fee.

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.

In general, the bond market is volatile, and fixed income securities carry interest rate risk. (As interest rates rise, bond prices usually fall, and vice versa. This effect is usually more pronounced for longer-term securities.) Fixed income securities also carry inflation risk, liquidity risk, call risk, and credit and default risks for both issuers and counterparties. Unlike individual bonds, most bond funds do not have a maturity date, so holding them until maturity to avoid losses caused by price volatility is not possible.

High yield/non-investment grade bonds involve greater price volatility and risk of default than investment grade bonds. Any fixed income security sold or redeemed prior to maturity may be subject to a substantial gain or loss. Your ability to sell a CD on the secondary market is subject to market conditions.

Treasury securities typically pay less interest than other securities in exchange for lower default or credit risk. Treasuries are susceptible to fluctuations in interest rates, with the degree of volatility increasing with the amount of time until maturity. As rates rise, prices will typically decline.

Investing involves risk, including risk of loss.

Past performance is no guarantee of future results.

Fidelity® Wealth Services provides non-discretionary financial planning and discretionary investment management through one or more Personalized Portfolios accounts for a fee. Advisory services offered by Strategic Advisers LLC (Strategic Advisers), a registered investment adviser. 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.

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

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

1201335.2.0